

AMERICAN CONSUMER PROTECTION

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

RECOMMENDATIONS FOR CONSUMER PROTECTION IN THE
FIELDS OF CREDIT, INVESTMENTS, HEALTH, MEAT INSPECTION,
HAZARDS IN THE HOME, ELECTRIC POWER RELIABILITY, AND
NATURAL GAS PIPELINE SAFETY

FEBRUARY 16, 1967.—Referred to the Committee of the Whole House on the
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To the Congress of the United States:

Almost 100 years ago the 42d Congress enacted and President Grant signed the first consumer protection law—to prohibit the fraudulent use of the mails.

We have passed many milestones since then on the road to consumer protection. One landmark was the Pure Food and Drug Act of 1906. Shortly after its enactment, President Theodore Roosevelt wrote:

The work thus begun must be unflinchingly carried forward in the interest both of the public and of the great body of * * * producers who are engaged in honest business.

Congresses and Presidents have “unflinchingly carried forward” in the public interest—from the Federal Trade Commission Act passed during Woodrow Wilson’s day and the Securities Act under Franklin Roosevelt, to the Truth-in-Packaging Act under the 89th Congress last year.

The consumer has also benefited from wise government policies to promote and stabilize prosperity. The American consumer today enjoys the highest standard of living ever experienced in the world. And it has risen rapidly in recent years. During the past 3 years, the consumer has reaped the harvest of a vigorous prosperity:

Nearly 6 million more Americans are at work, contributing to production and collecting growing paychecks;

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Real income after taxes has advanced 13 percent for the average American, a gain as large as in the preceding 8 years; and The net financial wealth of American families has risen \$150 billion.

We were concerned with the rise in prices last year, even though the incomes of most families outpaced the price level. Over the past several months, price increases have waned in intensity. And there is clear and welcome evidence that interest rates have been moving down. We must take whatever steps are necessary to continue these trends.

With the cooperation of business, labor, and the consumer, Government policies will be working this year—

To improve our record on prices and interest rates; and

To continue the steady growth of family incomes.

The rising incomes of prosperity have brought new vigor to the marketplace. American business has responded with matchless ingenuity and enterprise to produce the widest range of quality products ever offered for sale.

But the march of technology that has brought unparalleled abundance and opportunity to the consumer has also exposed him to new complexities and hazards. It has made his choices more difficult. It has made many of our laws obsolete and has created the need for new legal remedies and safeguards. In short, we are faced with new problems of prosperity.

Most of these problems are resolved in the free competitive market through the energies of private enterprise. It is remarkable how well the free enterprise system does its job. The Government does not and will not tell business what to produce or labor where to work. Nor will it tell the consumer what to buy.

By comparison with the scope of the market, the task of the Government is relatively small. Nonetheless, that task is vital and must be executed fully and faithfully. It must be kept up to date with the realities of modern life and a sophisticated marketplace.

The Government must work to make consumer choice fully effective. The consumer must be protected against unsafe products, against misleading information, and against the deceitful practices of a few businessmen that can undermine confidence in the vast majority of diligent and reputable firms.

The 89th Congress fulfilled these responsibilities. It will surely go down in history as a consumer's Congress. I proposed and you in the Congress enacted a series of measures designed to protect the consumer in the modern supermarket, on the new high-speed turnpikes of America, and in our growing banking and savings institutions:

The Truth-in-Packaging Act has launched a system to tell the buyer just what he is purchasing, how much it weighs, and who made it.

The Traffic and Highway Safety Acts have begun the first comprehensive national attack on the mounting toll of death and destruction on the highways.

The Child Protection Act is safeguarding our youngsters against needless tragedy from hazardous toys.

Additional insurance protection has been afforded to the millions of Americans who place their savings on deposit.

I now call upon the 90th Congress, in Theodore Roosevelt's words, to carry forward unflinchingly in the public interest, and to build on the record of progress of the 89th Congress. For there is important unfinished and new business on the agenda to—

Provide consumers with accurate and clear information on the cost of credit.

Give our investors better protection in their purchases of undeveloped land, their interests in private pension and welfare plans, and their holdings of mutual funds.

Insure that medical devices and laboratories designed to aid health do not instead intensify illness.

Close the gaps in our system of meat inspection.

Reshape our laws dealing with hazardous household products.

Improve our shameful record of losses of life and property through fires.

Minimize the likelihood of massive electric power failures.

Insure the safety of natural gas pipelines.

I have submitted many proposals at this session to benefit the poor and the disadvantaged of our land. The recommendations I am making today will help all Americans. Most of all, they will help middle income families—the vast majority of Americans who can afford to enjoy the abundance of the marketplace, but who can ill afford the high cost of deceit, misinformation, and confusion.

TRUTH IN LENDING

Consumer credit has become an essential feature of the American way of life. It permits families with secure and growing incomes to plan ahead and to enjoy fully and promptly the ownership of automobiles and modern household appliances. It finances higher education for many who otherwise could not afford it. To families struck by serious illness or other financial setbacks, the opportunity to borrow eases the burden by spreading the payments over time.

Because of these benefits, consumers rely heavily on credit. Outstanding consumer credit today totals \$95 billion; \$75 billion takes the form of installment credit. The interest costs on consumer credit alone amounted to nearly \$13 billion in 1966.

The consumer has the right to know the cost of this key item in his budget just as much as the price of any other commodity he buys. If consumers are to plan prudently and to shop wisely for credit, they must know what it really costs.

In many instances today, consumers do not know the costs of credit. Charges are often stated in confusing or misleading terms. They are complicated by "add-ons" and discounts and unfamiliar gimmicks. The consumer should not have to be an actuary or a mathematician to understand the rate of interest that is being charged.

As a matter of fair play to the consumer, the cost of credit should be disclosed fully, simply, and clearly.

Now that the right of consumers to be fully informed is protected when they shop in the supermarkets, the time has come to protect that right for shoppers who seek credit.

I recommend the Truth-in-Lending Act of 1967 to assure that, when the consumer shops for credit, he will be presented with a price tag that will tell him the percentage rate per year that is being charged on his borrowing.

We can make an important advance by incorporating the wisdom of past discussions on how the costs of credit can best be expressed. As a result of these discussions, I recommend legislation to assure—

Full and accurate information to the borrower; and
Simple and routine calculations for the lender.

This legislation is urgently needed to—

Close an important gap in consumer information.

Protect legitimate lenders against competitors who misrepresent credit costs.

The Truth-in-Lending Act of 1967 would strengthen the efficiency of our credit markets, without restraining them. It would allow the cost of credit to be freely determined by informed borrowers and responsible lenders. It would permit the volume of consumer credit to be fully responsive to the growing needs, ability to pay, and aspirations of the American consumer.

THE INVESTING PUBLIC

With savings derived from an abundant economy, America has become a Nation of investors.

The landmark securities laws enacted during President Franklin Roosevelt's first term have provided important safeguards over the last three decades to the millions of Americans who invest in stock. The deposit insurance laws of the New Deal safeguard our checking and savings accounts.

Today new efforts are needed to assure that Federal protection of the investor keeps pace with the changing needs and growing wealth of the American economy. There are three areas of rapidly expanding investment that require the attention of the Congress in 1967—interstate land sales, private pension and welfare plans, and mutual funds.

1. Interstate land sales

Many investors—particularly older Americans—are attracted to advertisements offering inexpensive retirement homesites. The interstate mail order sales of such land runs into many millions of dollars each year.

Most buyers get what they pay for. But, according to evidence obtained by the Senate Subcommittee on Frauds and Misrepresentations Affecting the Elderly, "slippery language and omission of important facts" have given too many buyers grossly distorted impressions of the land they later purchased.

Some of our senior citizens have become victims of subtle and sharp sales practices. They have wasted much of their lifesavings on a useless piece of desert or a swampland.

A number of States have enacted legislation to deal with these abuses. But only the Federal Government can have effective authority over interstate mail order sales. Only the exercise of such authority can protect the buyer and legitimate seller alike against loss and injury.

I recommend the Interstate Land Sales Full Disclosure Act of 1967 to afford the public greater safeguards against sharp and unscrupulous practices.

Under the act, developers engaged in interstate commerce, who offer to sell unimproved subdivided lots, would be required to disclose

to potential buyers fully, simply, and clearly all of the material facts needed for an informed choice. This can be assured—without burdening the legitimate developer—through a Securities and Exchange Commission registration procedure. The procedure would be similar to the proven and effective disclosure technique used for public offerings of corporate stock.

2. Pension and welfare plans

More than 40 million workers on the payroll of American industry are now participating in private welfare and pension plans.

These plans are of vital importance to the worker and his family. They are a source of retirement income. They help meet the bills when illness or disability strikes. In combination with the Federal social security system, they provide a framework of protection for the American worker in his old age.

These private plans have grown sharply. Today, they account for assets of \$90 billion. The very size of these plans makes it essential that they be soundly administered in the public interest. Because employer and worker alike rely upon them so heavily, they must be operated with unquestioned prudence and integrity.

The vast majority of welfare and pension plans are managed wisely by able officials, who follow the strictest code of fair dealing.

Yet our goal must be to guarantee to every American worker that the steward of his particular plan, just as any other trustee, follows the highest standards of responsibility. Federal law provides a number of safeguards, but there are serious gaps which must be closed.

The law, for example, does not bar conflicts of interest between the plan and its employer company. Nor does it now adequately prohibit a conflict between the private or personal interests of the plan's manager and the larger interests of the beneficiaries. There have even been cases where managers have obtained loans for themselves and their personal friends.

In some cases, serious abuses of trust have not been reached by the law. In other instances, a timely audit could have prevented fraudulent activity. But the law requires no such independent check.

I recommend the Welfare and Pension Plan Protection Act of 1967, to extend additional protection to the American worker, his family, and his employer.

Under this act—

Time-tested standards of responsibility and fair dealing will be required of plan administrators.

Yearly independent audits of welfare and pension plans will be conducted by certified or licensed public accountants.

Disclosure of the plan's financial activities will be made more complete.

Maximum limits will be placed on the portion of the plan that may be invested in stock of the employer company.

The enforcement and investigatory powers of the Secretary of Labor will be expanded.

Legal remedies will be available to recover losses to the beneficiary resulting from breaches of faith by administrators of the plan.

This law will not interfere with the discretion of plan managers in making legitimate investment decisions. It will, however, insure

the worker and his family that their welfare and pension plans will be administered fairly and honestly.

3. Mutual funds

In 1940, President Roosevelt signed the Investment Company Act—and for the first time direct protection was extended to the investor in a mutual fund.

At that time, about 300,000 Americans held mutual fund shares, worth \$450 million. Today, mutual fund investors number more than 3.5 million. Their holdings are worth over \$38 billion. Many of these investors are families of modest means.

The spectacular growth of the mutual fund industry is an indication of its popularity and of the important role it plays in the economy. Through these funds, the small investor can obtain professional management and an interest in a diversified portfolio of securities. He expects to and is willing to pay reasonable fees for these services.

The vast expansion of mutual funds, particularly in the last decade, has brought to the fore new issues which were either nonexistent or of secondary importance when the Investment Company Act was passed over a quarter of a century ago. A wise and forward-looking Congress in 1940 authorized the Securities and Exchange Commission to conduct a study of mutual funds if “any substantial further increase in the size of investment companies creates any problem involving the protection of investors or the public interest.”

Acting under this mandate, the Securities and Exchange Commission has made periodic studies of the mutual fund industry. Two months ago, the Commission submitted to the Congress a thoughtful and exhaustive 346-page analysis, “Public Policy Implications of Investment Company Growth.”

The SEC report reaffirms the diligent manner in which the funds are managed and cites the proud record of the industry. However, it raises a number of serious questions when it states that—

The great economies of size resulting from the growth of funds have brought vast profits to fund managers. But these economies have not been shared adequately with the investor.

Sales charges for mutual funds may often be unnecessarily high.

Investors of modest means have purchased “front end load” plans under which as much as 50 percent of their payments during the first year are deducted as sales commissions. They may face a substantial loss if financial difficulties force them to withdraw from the plan at an early date. In many cases the consumer is unaware of other forms of mutual fund investment which may be available at lower cost.

The Commission’s study concludes that mutual fund shareholders need additional safeguards in the areas mentioned above and that protections under present law should be extended.

I urge the Congress to give careful consideration to the report and recommendations of the Securities and Exchange Commission. In my judgment, they provide a sound basis for measures which will be beneficial to the investing public and promote the health and stability of the industry itself.

PROTECTING THE PUBLIC'S HEALTH

Today, we have a network of safeguards protecting the public's health.

In 1938 the Congress strengthened the Food, Drug, and Cosmetics Act to require that the safety of drugs be cleared prior to marketing. In 1962, the law was further reinforced to require that the effectiveness of drugs also be cleared prior to marketing.

The value of these laws is beyond question. Nonetheless, important gaps in the law remain which should be closed now.

1. Insuring the safety and effectiveness of medical devices

Under present law, dangerous and worthless devices may be marketed until the Government—sometimes by chance, sometimes by complaint—discovers them and gathers the necessary evidence to establish that they are hazardous or ineffective. This is a laborious process. It requires many months. It is costly.

In the meantime, the elderly and the seriously ill suffer most. Improper treatment with worthless devices can be the cruelest hoax of all.

We want to foster continued research and development of lifesaving devices. But we must be sure they have been adequately tested before they are put on the market. We cannot be sure today.

Congressional testimony has revealed that—

Defective nails and screws for bone repair have required repeated operations to correct the damage.

Some artificial eyes have resulted in serious infection.

Useless heating and vibrating devices have caused the ill to squander their money and delay the pursuit of effective treatment.

X-ray machines, which could have been properly safeguarded at little cost, emitted excessive doses of radiation.

I recommend the Medical Device Safety Act of 1967.

Under this act, the Food and Drug Administration would be required to preclear certain therapeutic materials—such as artificial organ transplants—used mainly on or in the body. In addition, the FDA will establish standards to assure the safety and performance of certain classes of widely used devices—bone pins, catheters, X-ray equipment, and diathermy machines.

In every case, the rights of the parties will be protected by fair hearings.

This new law will not apply to simple and ordinary patient care items which have withstood the test of time and are generally recognized as safe and reliable. It will not apply to an item specially ordered or designed by a surgeon or physician. Nor will it inhibit the research and development essential to the advancement of the medical arts. It will, however, protect physician and patient alike from devices which are dangerous and unreliable.

2. Improving our clinical laboratories

Most clinical laboratories render outstanding and dedicated services to patients and doctors. But the substandard clinical laboratory remains outside the reach of the law. There have been deeply disturbing revelations of inaccurate medical tests performed by some of these laboratories. These tests have caused serious harm to the health and have threatened the lives of patients.

Consider the following:

Expert studies indicate that one out of every four diagnostic tests conducted by clinical laboratories may be inaccurate.

Mismatched blood transfusions have caused serious injury or death.

Falsely low hemoglobin readings have resulted in transfusions patients did not need.

Inaccurate tests have resulted in the needless prescription of highly toxic drugs.

False tests have resulted in cruel anxiety to the patient and his family.

I recommend the Clinical Laboratories Improvement Act of 1967.

Under this act, clinical laboratories engaged in interstate commerce would be licensed by the U.S. Surgeon General and required to comply with minimum performance standards set by him.

We will also provide, under the "Partnership for Health Act," a series of flexible matching grants to State and city health departments to strengthen their procedures for evaluating the skill and performance of clinical laboratories not in interstate commerce.

ASSURING WHOLESOME MEAT

For 60 years, the Federal meat inspection program has removed unwholesome and adulterated products from the Nation's meat counters. The American housewife knows she can count on the quality of inspected meat. Indeed, she may expect that all the meat she buys deserves her confidence.

Yet, millions of tons of meat are not subjected to these high standards of inspection. Nearly 15 percent of the fresh meat supply and almost 25 percent of processed meat products do not enter into interstate commerce and are therefore not inspected under the Federal program. Although some of this meat is inspected under State and local programs, most of it receives no inspection at all.

It should be our goal to provide full assurance of the wholesomeness of all meat products offered for sale to the housewife. This assurance can best be developed through a Federal-State partnership for consumer protection.

I recommend the Wholesome Meat Act of 1967.

This legislation would modernize the present Federal Meat Inspection Act, a law which has been amended only once since its enactment in 1907. Under the strengthened legislation, the Secretary of Agriculture would be authorized to—

Enter into cooperative agreements with States seeking to raise their standards of meat inspection.

Furnish these cooperating States with up to half of the administrative cost of the inspection program and a major share of the cost of training personnel to man the program.

This legislation would greatly enhance the wholesomeness of our total meat supply.

PROTECTIONS AGAINST HAZARDS IN THE HOME

Time and again during the 20th century, Congress has enacted new legislation to protect the health and safety of consumers. Our law-

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makers have responded to changing needs and circumstances. Often they have been spurred by particular tragedies or specific disclosures.

News stories about young girls burned by flaming sweaters brought swift congressional action in 1953 to deal with certain flammable wearing apparel. The tragic deaths of children by suffocation in refrigerators led to the Refrigerator Safety Act.

It is right and gratifying that the national conscience responds vigorously to such events. But the result is a patchwork of frequently uncoordinated laws, incomplete and uneven in coverage, often containing loopholes and gaps unknown and unrecognized by the general public. The time has come to take an overall look at our national safety legislation and to determine how it can best be streamlined to meet the needs of today.

1. National Commission on Product Safety

It is particularly urgent to review our safeguards against hazardous household products. Recent estimates indicate that over 400,000 accidents a year can be attributed to powermowers, washing machines, power tools, and cooking utensils.

Consumers must, of course, exercise proper caution in using equipment which inherently has some risk. But consumers should not be exposed to unnecessary risks resulting from improper design or defective manufacture. Today, too often, the consumer cannot be sure where such hazards lie.

The time has come for a comprehensive review of the—

Scope and potential of voluntary industry efforts to develop safety standards and to engage in self-regulation.

Relationship among Federal, State, and local laws and regulations.

Proper identification of products which present undue and unreasonable hazards to the health and safety of consumers.

Question of responsibility and enforcement, particularly of manufacturers' liability for injuries caused by hazardous products.

When we have the answers to these questions, we can move from a patchwork of regulation to the comprehensive network of safeguards the American consumer deserves.

I recommend that the Congress enact legislation establishing a National Commission on Product Safety to insure prompt study of these questions by America's outstanding experts.

The entire Nation would look forward to a full report from the Commission, including proposals to establish uniform, comprehensive, and effective safeguards in the area of household products.

2. Strengthening the Flammable Fabrics Act

There is one gap, however, in existing legislation which is so glaring that action should not be delayed. The Flammable Fabrics Act of 1953 has done much to keep extremely flammable clothing out of the Nation's stores.

But the standard of flammability established under that act is deficient. The act does not cover many articles of clothing which can be consumed by fire almost instantaneously. It is narrowly restricted to certain wearing apparel. It does not extend to such everyday items as baby blankets, drapes, carpets, and upholstery fabrics.

I recommend legislation to broaden and strengthen the Flammable Fabrics Act to close these gaps in the law.

3. *Fire Safety Act*

The strengthening of the Flammable Fabrics Act should be one early step in a major national effort to reduce our shameful loss of life and property resulting from fires. In 1965, some 12,000 lives and \$1.75 billion worth of property were lost to fire. Our per capita death rate through fire was about four times as great as that of the United Kingdom and over six times as great as that of Japan. We can do better, and we must.

We must begin by developing improved information about the number and causes of fires and their costs in terms of property, lives, and injuries.

The Federal Government must also begin to support and supplement private research efforts on firefighting and fire prevention. It should work to expand public education about fire prevention. It should extend a helping hand to communities willing to innovate and experiment in the field of fire control and prevention.

I recommend the Fire Safety Act of 1967.

This act will authorize and support the—

Collection, analysis, and dissemination of comprehensive, detailed fire information.

Initiation of a fire safety research program.

Improve education for those who prevent and control fire.

Educational programs to inform the public of its opportunities and responsibilities for fire prevention.

Pilot projects to improve and upgrade the efficiency of firefighting professions and to promote more effective application of fire safety principles in construction.

INCREASED ELECTRIC POWER RELIABILITY

The electric power industry, consisting of over 3,000 separately owned systems—public, private, and cooperative—supplies a great and growing share of America's energy requirements. Electric power consumption in this country doubles every decade.

Electricity has helped to fulfill the promise of modern America. The electric power industry has provided this Nation with the most dependable and widespread electric service enjoyed by any people. Utilities have joined together to create systems that span thousands of miles and operate at efficient and economical extra high voltages.

We have become almost totally reliant on electric power and on the systems that carry it to our homes, offices, factories, and farms. The northeast blackout in November 1965—affecting 30 million people in six States and Canada—was a spectacular reminder of how vital an uninterrupted flow of electric power is to our safety, defense, health, and convenience. Subsequent power failures of lesser magnitude elsewhere in the country have intensified the concern of every citizen. The Nation's dependence on electric power requires further efforts to assure that service becomes even more reliable in the future.

Government and industry experts are now completing their assessment of the lessons of the northeast power blackout. It is becoming increasingly clear that greater coordination is needed among the various utilities to reap the benefits of reliability and economy inherent in huge generating units and extra-high-voltage transmission lines.

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It is also becoming evident that power systems must be carefully planned, coordinated, and strengthened to protect the consumer against cascading power failures. Much of this effort is already being voluntarily undertaken by America's great electric power industry. For example, in recognition of the importance of coordination 23 utilities in an eight-State area recently announced the formation of a regional council.

But more must be done. The final report of the Federal Power Commission on the northeast blackout is now being completed. Recommendations for legislation will be carefully reviewed by the executive branch.

On the basis of this report and our review we shall recommend legislation to strengthen coordination among the electric power utilities. This coordination will promote the growth of an electric power supply system to provide an even higher quality of electric service to the American consumer.

NATURAL GAS PIPELINE SAFETY

Nearly 800,000 miles of pipeline reach out across a continent, linking the Nation's natural gas producing fields to the consumer. This gas brings heat and convenience to millions of American homes. It is used increasingly in industrial processes.

The safe transmission and distribution of natural gas is essential to all of us.

The natural gas industry is among the most safety conscious in the Nation. But natural gas is inherently dangerous when it is being transmitted. It travels through pipelines at enormous pressures. It is highly flammable. When it burns, it can reach temperatures as high as 2,500° F. In March 1965, a tragic pipeline failure near Natchitoches, La., killed 17 persons. The recent blaze in Jamaica, N.Y., dramatically underscored how serious a gas pipeline failure can be.

As pipelines age and as more and more of the system lies under areas of high population density, the hazards of pipeline failures—and explosions—increase. Yet—

Twenty two States have no safety regulations.

Many of the remaining 28 States have weak or outmoded provisions.

Although the gas industry has developed safety standards, they are not binding and in some instances not adequate.

There is no Federal jurisdiction whatsoever over 80 percent of the Nation's gas pipeline mileage and no clear authority to set minimum safety standards for the remaining 20 percent.

With the creation of the Department of Transportation, one agency now has responsibility for Federal safety regulation of air, water, and land transportation, and oil pipelines. It is time to complete this comprehensive system of safety by giving the Secretary of Transportation authority to prescribe minimum safety standards for the movement of natural gas by pipeline.

I recommend the Natural Gas Pipeline Safety Act of 1967.

Under the act, the Secretary of Transportation will develop minimum safety standards in consultation with the industry, the States, the Federal Power Commission, and other Government agencies.

These standards will cover the design, installation, operation, and maintenance of existing and proposed pipeline facilities, both interstate

and intrastate, when the facilities are involved in the gathering, transmission, or distribution of natural gas moving in interstate commerce. I am confident that the public can expect the full support of the industry for strengthened safety standards.

The Secretary of Transportation will also be given authority to investigate and determine the cause of accidents involving gas pipelines.

If we act now—in the public interest—we can reduce significantly the possibility of tragedy later on.

TO PROTECT THE AMERICAN CONSUMER

In this, my third message to the Congress on advancing the consumer interest, I speak in behalf of 200 million Americans.

I have set forth a series of demanding legislative proposals. They will require careful and deliberate consideration by the Congress and diligent efforts by the executive branch once they are enacted.

The cost to taxpayers of carrying out these proposals is very small.

The savings to them as consumers will be great—in dollars, in safety, and in peace of mind.

These proposals call for the united support of business, labor, and consumers.

Their purpose is to provide the greatest good for the greatest number.

They serve the objectives I set forth 6 years ago, almost to the day, before the National Industrial Conference Board:

This administration seeks no cold wars with—or among—those it serves; not with business or labor, not among producer and consumer * * * With all—and among all—we seek warm and respectful alliances, so that in common purpose and joint effort we may assure success for freedom's cause.

LYNDON B. JOHNSON.

THE WHITE HOUSE, *February 16, 1967.*

