

SIX DANGERS IN AMERICA'S FUTURE

THE LATEST from Federal Reserve Board Chairman Arthur F. Burns:

The U. S. must solve six problems if it is to have lasting prosperity.

In testimony before the Joint Economic Committee of Congress, Mr. Burns pointed to these persistent weaknesses as standing in the way of achieving a steady rate of economic growth once this recession is over.

Problem No. 1: Corporation debt, which was only about half as large as stockholders' investments in the nation's business in 1950, is today roughly equal to those investments.

A great deal of the additional debt is of short-term variety, which comes due in a matter of months and therefore needs to be refinanced over and over. Mr. Burns declared:

"The liquidity position of nonfinancial businesses has thus been weakened."

A slumping stock market in 1973 and 1974 was one of the reasons for that pile-up of debt. It was difficult, if not impossible, for many companies to raise funds through the sale of new shares of stock. That left them with no alternative to heavy borrowing.

Problem No. 2: A decline in the earnings of the corporations in "real" terms contributed to the increase in debt by depriving the companies of funds needed for new supplies, construction and equipment.

While corporations generally reported higher profits in 1974, Mr. Burns said this apparent increase came from a rise in the value of inventories as a result of inflation. When this "illusory" element is eliminated, he estimated, the companies' earnings actually went down 20 per cent last year and were smaller than they had been 8 or 10 years ago.

Profits were also distorted by the fact that industry is charging for the use of plant and equipment on the basis of prices paid for them years ago, instead of at the much higher prices that will have to be paid for replacements when the present equipment wears out or becomes obsolete.

Adjust for that factor, Mr. Burns said, and profits were actually not even large enough to cover the dividends being paid to stockholders—let alone to provide for building up the business.

Problem No. 3: The double-digit inflation of the past year. The Federal Reserve Chairman explained:

"There can be little doubt that infla-



Chairman Burns calls for spending curbs, increased profits and more investment.

tion is the principal cause of the decline in economic activity in which we now find ourselves. . . . Because of its capricious incidence on income and wealth, inflation has caused disillusionment and discontent among our citizens. And because of its distorting effects on business decisions, inflation has brought into question the liquidity of some major business and financial institutions."

On that score, Mr. Burns was taking issue with George Meany, head of the AFL-CIO, and also with some economists who say the Federal Reserve brought on the recession by keeping money and credit too tight for too long.

Mr. Burns takes the position that the Federal Reserve had to clamp down on the growth of the money supply and let interest rates soar to record levels to check inflation, which he traces in large measure to two of the six problems in his list.

Problem No. 4: Shrinking gains in productivity—what is otherwise known as output per man-hour—in recent years. Gains here reflect the technological improvements that can be brought about through new machines and methods and the increasing education of the labor force.

The trouble is, Mr. Burns suggested, that industry has not had the incentives needed to invest enough in new plant and equipment or in advanced research. And, at the same time, productivity has been hampered by unfavorable changes

in "the attitude of the labor force and some laxity in management."

Said the Federal Reserve Chairman:

"Workers nowadays are well trained, but many of them work with less energy than they should, and absenteeism has become a more serious problem."

Problem No. 5: The mounting tax burden. Mr. Burns pointed out:

"Taxes have progressively reduced the rewards for working, while Government at the same time has increased the share of the national output going to persons who are not productively employed. Twenty-five years ago, a typical worker with three dependents gave up 1 per cent of his gross weekly earnings in federal income and Social Security taxes. Since then, that fraction has risen steadily and reached 13 per cent in 1974."

Mr. Burns contended that the mounting tax burden has taken away some of the worker's incentive and thus tends to reduce productivity. And he blamed the rise in taxes largely on the way federal outlays for "public welfare, Social Security benefits, unemployment insurance, and other public assistance" have grown. These payments, he estimated, have increased about twice as fast as wages and salaries. He warned:

"A society as affluent as ours can ill afford to neglect the poor, the elderly, the unemployed or other disadvantaged persons, but neither can it afford to neglect the fundamental precept that there must be adequate rewards to stimulate individual effort."

Problem No. 6: The decline of the U. S. dollar in world markets. On that score, the FRB chief declared:

"A substantially greater degree of exchange-rate stability will not be achieved until underlying economic and financial conditions have been put in better order."

What ought to be done? Mr. Burns divided his prescription into short and long-range remedies.

For the immediate future, he stressed the need to "cushion" the recession with a temporary income-tax cut for individuals, tax relief for business, and "an adequate expansion in supplies of money and bank credit."

For the longer run, he said, Congress must get a firmer grip on federal spending, especially on the so-called transfer payments to people receiving direct assistance of one sort or another from the Government.

Better profits for business and greater incentives for investment also will be needed, Mr. Burns said.

"Above all," he concluded, "ways must be found to bring an end to inflation." [END]