STATEMENT BY SENATOR HUBERT H. HUMPHREY

CONFERENCE OF CORPORATE EXECUTIVES

Washington, D.C.

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Future historians will look back on the mid-1970's as a "crossroad" in world economic history. For it is now, today, that a number of major evolutionary trends have become events that have practical significance in peoples' lives.

Some of the most critical of these are; population growth, world affluence, the social goals of government, the multinational enterprise, communications technology and natural resource limitations. But there are many more.

The way in which the world's leaders respond to these changes will not only determine the basic outlines of the world economy for a generation or more, but will provide the framework for the world order of the twenty-first century. These are critically important times.

As we face up to the challenges to the economic well-being of mankind that have so recently begun to affect our lives, one fact is clear.

Today's basic economic problems are world problems, and our national economies truly are parts of a "world economy." Therefore, successful solutions to the major problems facing all nations will not be solved with the essentially insular economic policies of the past.

Much greater attention will have to be given to worldwide economic occurences by economic policy makers in every nation, particularly our own where we have failed dismally in this respect, or their policies will simply fail.

Where are we today?

Capital, labor, banking, production and consumption no longer recognize national boundaries. Workers in Houston produce fertilizer from Latin American potash for sale in Canada -- whose wheat is then eaten by Yugoslav workers in Frankfort. Public policies affecting any part of this sophisticated system affect all of the participants in it.

The growth in world interdependence in the last few years is startling. For example, the value of American exports and imports has soared from $54 billion in 1966 to $140 billion last year.

The total value of exports and imports by the industrialized OECD nations has soared from $480 billion in 1972 to an estimated $850 billion this year. And while GNP in these nations was rising between 10 per cent and 15 per cent during this period, their international trade soared 75 per cent.

In the past six years, the share in our GNP accounted for by exports exploded 40 per cent. In addition, the value of our private direct investment abroad now stands at over $100 billion, and foreigners have now directly invested some $14.3 billion in American factories and businesses.

I could go on and on, but the point is clear. Whether we like it or not, we are intimately involved in a "world economy" which we influence greatly and are greatly influenced by.

World interdependence has made us much wealthier than we could ever hope to be in isolation. But it has also greatly facilitated the transmission of inflation and recession from one nation to another.

With regard to inflation, we see the evidence of this new economic proximity clearly. The seven largest Western economies enjoyed an average annual rate of inflation of only 3.2 per cent from 1959 to 1971. However, the OECD estimates that this will soar to a very broadly based 14 per cent this year -- an optimistic prediction in my opinion.

Today I would like to speak briefly with you about the worldwide inflation we face, how I believe we got here, and what I think we can do about it.

Obviously there are numerous origins of this price explosion, some of a one-shot, temporary nature, and others of a more enduring character.

Two commodity groups, food and petroleum, have led the recent worldwide price advance.

In agriculture, the past two years have witnessed feverish commodity speculation. Retail food prices have soared some 35 per cent at home and much more in many places abroad. Strange names such as Peru's Humboldt Current and Central Africa's Sahel, and even stranger grain deals, have come to the world's attention as major factors in pushing up prices at the supermarket.

Fertilizer, fuel, feed, and equipment shortages, plus bad weather conditions have limited grain supply increases to 3 per cent since 1971. Yet, fed by population growth and rising affluence, world grain consumption has exceeded production in four of the past five years. As a result, world grain reserves have declined from a three-month supply in 1968 to a dangerously low 26 day supply as of this month.

In the energy field, we have had a cataclysmic change in petroleum pricing policy by the OPEC countries. The oil-producing nations have collusively joined together, greatly increased their prices, and made a financial killing. The tremendous price boost has brought about a four-fold increase in the price of oil. This increase means a real income loss to the consuming nations of some $75 billion this year compared to only $5 billion in 1973, and the amount is growing. The OECD estimates that its European member nations will experience a 4 per cent general price hike in 1974 due solely to higher oil prices.

The vast holdings of funds in the oil-producing countries, estimated to amount to as much as $400 billion by 1980, has injected a huge new volatile element in the world financial market. It is obvious that any pattern of reinvestment of these funds will not conform to the old ones. It is most likely that the Arabs will pursue maximum security and liquidity by putting most of their new wealth in three or four countries. The impact of such a policy on weaker economies could be devastating.

Two additional short-term factors have contributed to the world-wide inflation of today. First, in most developing nations, and many industrialized countries, the net result of the revaluations accompanying the introduction of floating exchange rates has been upward pressure on prices.

Second, virtually every nation was subject to major inflationary pressures arising from the simultaneous world boom of the last two years. This boom, which lead to commodity shortages, demand-push inflation, and soaring transportation charges, was fueled and transmitted by the explosive growth in world trade.

As I see it, the growth in food and oil prices, reinforced by currency devaluations and the world boom, are the primary sources of today's double-digit inflation. But there are a number of longer-run structural factors which contribute to inflation, and would have given us some serious "single digit" inflation even without the short-term factors mentioned above.

The growth in real per capita incomes, and in world population, would have put severe pressures on supplies of many raw materials, goods, and services, and pushed their prices way up, even in the absence of recent events. This increased demand can only be satisfied by digging deeper for coal, by planting less fertile land, by utilizing lower-grade ore, and by producing products in aging plants. While all of this may be necessary to meet growing world needs, it will continue to push up prices.

Another fundamental source of pressure on prices is the political commitment of virtually all modern governments to the vital social and economic goal of full employment. Few economies have been able to come even close to achieving this goal without serious price increases. The obvious exception is Germany, whose experience warrants the careful scrutiny of our policy makers. The full employment goal is a political fact of life, for as far into the future as I dare peer, and it is, obviously, a most desirable policy goal. What is at fault are our techniques for its achievement. Full employment creates goods and services, reduces transfer payments, and increases revenues.

The inflationary impact of these factors is reinforced by declining rates of increase in productivity, particularly in the United States. For many reasons, the incentive to increase individual productivity has dropped off sharply in recent years. At the same time, expanding oligopoly in most major sectors of the world economy reduces the need to make productivity a corporate priority.

In terms of labor productivity, there is little incentive. Today, only a weak link between pay and work performance exists. And low savings rates and investment levels in this country have produced abysmally poor productivity performance in recent years. For the past 20 years, average annual productivity growth has been 2.9 per cent, but for the past 10 years and five years the figures are 2.8 per cent and 2.4 per cent respectively, about one half the rate for Europe and one-fourth the rate for Japan.

Inflationary factors in the private sector are reinforced by the administered pricing practices of big business. The easiest way to increase profits is to reduce or eliminate competition and then charge what the market will bear. This can be achieved through implicit or explicit collusion with erstwhile competitors, through merger, price leadership practices, market sharing, and a variety of other tactics. The result is the same: incentive to cut prices, or hold them down, by raising productivity is seriously eroded, if not completely destroyed.

As you may know, I have just returned from China. Let me tell you, the Chinese know that productivity is the key to a growing material well-being. There is no capital waste in China and no featherbedding, either. They work all their resources hard. I'm not endorsing their economic methods. I found the loss in human freedom and individuality very disturbing. Nevertheless, they work hard, and their productivity will pay off by making larger shares of an even larger economic pie available to all.

Inflationary structural distortions are not confined to the private sectors of our world economies. To a greater or less degree, all governments intervene in the economic activity of their nations. This intervention, by its very nature, carries a great inflationary risk. It may hamper the free flow of goods and labor; it may interfere seriously with the forces of demand and supply; and it may retard technological progress. Subsidies, import quotas, tariffs and price supports, if not very closely monitored and adjusted, may all constitute a load of barnacles which must be periodically scraped off our economy.

What can we do to reduce the inflationary pressure generated by these long and short-term sources of world inflation?

Based on recent petroleum exporting nations' actions, rising fuel costs may be a permanent feature of the world economy. This is bad news. We cannot, in the short-run, significantly reduce these fuel costs.

On the other hand, we can limit further increases in fuel costs through taking at least five courses of action:

-- First, close monitoring of the investment and pricing behavior of international oil companies;

-- Second, a much-expanded energy conservation program;

-- Third, concerted policy and action by all major petroleum importing nations;

-- Fourth, a real commitment to energy research for self-sufficiency through a closely coordinated program among non-OPEC nations;

-- And finally, maintenance in our country of the Emergency Petroleum Allocation Act.

Price ceilings on domestic crude oil production should not be raised during these inflationary days, and any increase in regulated natural gas prices should be publicly explained and accompanied by rigorous controls designed to prevent windfall profits.

The oil producing nations are "ripping off" the consuming nations. They are acting in collusion and charging an exploitive price five times greater than their costs of production. The only limit to future petroleum price increases is the cost of producing shale oil and other forms of substitute energy.

Therefore, as I said before, we must push research into these alternative sources as rapidly as possible. In this regard, I call to your attention passage of my Solar Energy Research Bill by both Houses of Congress last week. It provides some $1 billion for solar research development and demonstration during the next five years.

As much as we may feel put upon by OPEC, there is nothing to be gained by antagonistic posturing with these nations. We must work together with them -- the consuming nations and OPEC need each other. Their oil revenue is no good to them buried in the sand, and we need their oil.

This is the common ground: The oil exporting nations need a stable, viable world economy in which to invest and from which they can purchase technology, goods and skills. The OPEC nations, after the first blush of their profits has worn off, must come to realize that they have a large role in preserving the stability of our world economy.

Yes, we will pay for their oil, but they must not practice outrageous pricing policies. Yes, we will provide long-term investment opportunities to them, but they must not allow their profits to slosh across the western world -- disrupting exchange rates and capital markets. Yes, we will make technical know-how available to them and access to our markets in years to come, but they must demonstrate their responsibility on oil pricing.

We must develop mechanisms in the oil importing nations to channel Arab investment funds into productive uses in the consuming economies and techniques for re-cycling petrodollars back onto the economies from which they came.

The OPEC countries have displayed some hopeful signs in the last several months. These have taken the form of a $3.15 billion subscription to the IMF's "special oil fund," well over $1 billion in World Bank bond purchases, and large loans to Japan.

It goes without saying that the consuming nations' policies must be coordinated just as the oil exporting nations are coordinated. The consuming nations can only lose by "going it alone," since to do so sharply raises the possibility that a country may encounter insurmountable balance of payment problems. And, the bankruptcy of any industrialized nation could trigger another "Great Depression," because of the close interdependence today of all economies.

In agriculture, it is vital that corrective action be taken to eliminate bottlenecks to expanded farm output anywhere in the world -- especially those imposed by fuel, fertilizer and equipment shortages. In addition to short-run efforts to expand food production, we should strengthen research efforts aimed at improving crop yields and production efficiency, particularly in the tropics.

Most importantly, we must move now to establish a national and world-wide system of reserves of the major grains. I have worked on this specific proposal for years. It is vitally important that such reserves be created to insure greater price stability in future years and to assure that food -- our most precious commodity -- is always available to everyone. The need for surplus grain reserves is compelling and in the long-term self-interest of farmers and consumers alike.

As a major grain supplier, the United States itself must know when drastic action is required to prevent international raids on our food supply. These raids threaten the well-being of our people and the very lives of many of our trading partners.

I have proposed that a stand-by export reporting system be established which will let us know, before the ships leave our shores, just what our food supply, quality and price situation is. This emergency system is designed to prevent a reoccurrence of last year's price hikes due to export sales and speculation. When needed, it would authorize the use of export quotas to preserve an equitable distribution of food in periods of world shortage.

The inflationary impact of the spate of devaluations has largely worked itself through the world's economies. The same cannot yet be said of inflation growing out of the recent world boom. Demand-push inflation can and will reoccur. In fact, it will reoccur again and again as we go through boom and deflationary cycles, unless the world economies act in concert to prevent the over expansion which unduly taxes world resources.

The more permanent structural sources of inflation cannot, I believe, be eliminated in the short run, but progress can surely be made.

To ease inflationary demand-push pressures on world resources, two broad efforts are appropriate. First, we must change our profligate lifestyles to conserve limited world resources. We must accept changes in our diets, for example, to consume more of our protein from more efficient protein sources. We should alter our building codes to emphasize fuel conservation. We should possibly impose "horsepower taxes" on cars. Utility pricing structures should be altered to discourage, rather than encourage the use of electricity. We must utilize the concept of recycling to preserve resources for the future -- even if this raises prices today.

Second, the world economies should mount aggressive voluntary population control and distribution programs. Attitudes toward such programs are changing everywhere today -- but far too slowly. We can no longer wait for rising affluence to alter traditional attitudes towards population control; a more direct educational effort is needed.

A variety of techniques can be used to reverse the downward trend in productivity. Some techniques that we need now are the establishment of labor-management productivity councils in plants, and government productivity incentive programs, such as "bonus pay" for productivity-enhancing ideas.

Under the National Domestic Development Bank legislation I have proposed, investment assistance could be tied to effective plans to achieve maximum productivity.

We may need to revise the concept of profit and tie it more directly to labor's income. The real potential of profit-sharing, I feel, relates directly to productivity and is yet to be tapped.

We need a much more vigorous antitrust enforcement effort. I believe such an effort would stimulate both price competition and a greater effort by big business to come up with productivity breakthroughs.

We need to stop giving tax breaks just for doing things the same old way. The investment tax credit should be provided only for productivity enhancing investments.

Dealing with the inflationary structural rigidities of the public sector will be, perhaps, the most difficult challenge we confront. Essentially all of these rigidities in every country have strong, powerful vested support. To deal with public sector rigidities in this country, the Joint Economic Committee in its Interim Report on Inflation, released Saturday, called for the establishment of a Commission to examine in detail all federal subsidy, trade control and price support programs. I urge you to familiarize yourselves with the entire report. I believe it contains a tough, but fair, series of proposals to deal with the current economic chaos.

I began this talk with the admonition that we are at a pivotal point in world economic affairs. The interdependence which I noted earlier means that, for really the first time, economic actions taken by one nation directly and forcefully impact on other nations. The United States is affected by events in the Eurodollar market, as well as by government action to end a major strike in Italy. Domestic economic policy decisions can no longer be made in virtual isolation from our neighbors. Until we recognize this, we will be subject to even more common episodes of critical economic disruptions catching our policy makers by surprise.

The danger of this attitude in the current attack on world-wide inflation is particularly disturbing. If all of the industrialized nations, acting independently, pursue broadly deflationary monetary and fiscal policies, these will have an effect that is much more deflationary than expected. The result, will be that output and employment will drop much more than targeted.

When the basic rate of inflation arising from structural rigidities accelerates due to one-time shocks, such as in the past year, there may be a great rush by government leaders to throw a bucket of water on their economy when only a damp towel on the "world economy" is needed. This over-reaction when reinforced abroad, could in fact fulfill the dire Marxian boom-bust predictions -- something even the 1930's failed to do.

We must be on the alert, therefore, to prevent the use of broad, simplistic deflationary policies which are not adequate or appropriate for resolving today's inflation. Even more importantly, however, we must turn our governments toward the use of more precise, discreet, sensitive policy tools and away from dependence on blunt, broad-axe tools which inflate or deflate entire economies.

The world is changing. We need monetary and fiscal policy, but we also need to recognize that they alone are inadequate. What then are the new institutions and policy tools we need?

I am convinced that, if we are going to begin to anticipate problems and deal with them without unwisely disrupting the entire economy, we must seriously consider establishing some strictly American form of economic planning organization. Such an agency, capable of gathering data and following the activities of major economic sectors, would then be in a position to recommend appropriate government action to deal in a discreet, precise manner with the problems of particular sectors. I have proposed, for discussion purposes, the "Balanced National Growth and Development Act" to create some of the apparatus that would be needed. I urge you to give this approach your attention.

I know that planning is a dirty word -- it conjures images of bureaucrats interfering with every business decision and with workers' lives. But I reject this image. We must focus our responses to economic dislocations more precisely, and a data gathering and planning agency capable of recommending specific policies for individual sectors of the economy is a necessary first step. Without this basic change, we can resign ourselves to a very disruptive future in which all our public policy effort is devoted to responding, with no anticipation and initiative.

Finally, I must state frankly my serious disappointment with the Administration's response up to now to today's inflation. This Administration is viewing inflation far too frequently as only an American problem. It has failed to come to grips with the imperatives for international action to address a worldwide problem.

Moreover, the Administration is giving the strong impression of being satisfied with macro-deflationary policy -- the meat-axe approach to combatting inflation and hopefully avoiding recession.

But such economic thinking and policy-making are outdated and even dangerous. They have already been overwhelmed by world events which have produced a totally new economic situation.

It is my strong hope that the Summit Conference on Inflation will include a frank recognition that targetted responses to specific economic problems are required, and that a revolution in international economic relations is indispensable in solving problems that threaten the well-being of all mankind.

Tragically, it is the working men and women, the farmer and the small businessman who will bear the burden of governmental failure to address these new imperatives in economic policy-making.

I urge you to join me in calling for these actions that respond to the economic realities of today. The new evolving world economic order can lead either to major confrontation among nations or to an era of international cooperation.

Making the choice between these alternatives depends entirely upon the understanding and level of participation of business, labor, agriculture, banking, and other economic sectors. To remain divided is to fail. To join together is to succeed in accomplishing the most difficult and challenging assignment before us today and in the coming decades.

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REMARKS BY SENATOR HUBERT H. HUMPHREY

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WASHINGTON, D. C.

SEPTEMBER 24, 1974

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Some of the most critical of these are; population growth, world affluence, the social goals of government, the multinational enterprise, communications technology and natural resource limitations. But there are many more.

The way in which the world's leaders respond to these changes will not only determine the basic outlines of the world economy for a generation or more, but will provide the framework for the world order of the twenty-first century. These are critically important times.

~~AS WE FACE UP TO THE CHALLENGES TO THE ECONOMIC WELL-BEING OF MANKIND THAT HAVE SO RECENTLY BEGUN TO AFFECT OUR LIVES, ONE FACT IS CLEAR.~~

TODAY'S BASIC ECONOMIC PROBLEMS ARE WORLD PROBLEMS, AND OUR NATIONAL ECONOMIES TRULY ARE PARTS OF A "WORLD ECONOMY." THEREFORE, SUCCESSFUL SOLUTIONS TO THE MAJOR PROBLEMS FACING ALL NATIONS WILL NOT BE SOLVED WITH THE ESSENTIALLY INSULAR ECONOMIC POLICIES OF THE PAST.

~~MUCH GREATER ATTENTION WILL HAVE TO BE GIVEN TO WORLDWIDE ECONOMIC OCCURENCES BY ECONOMIC POLICY MAKERS IN EVERY NATION, PARTICULARLY OUR OWN WHERE WE HAVE FAILED DISMALLY IN THIS RESPECT, OR THEIR POLICIES WILL SIMPLY FAIL.~~

WHERE ARE WE TODAY?

CAPITAL, LABOR, BANKING, PRODUCTION AND CONSUMPTION NO LONGER RECOGNIZE NATIONAL BOUNDARIES. WORKERS IN HOUSTON PRODUCE FERTILIZER FROM LATIN AMERICAN POTASH FOR SALE IN CANADA -- WHOSE WHEAT IS THEN EATEN BY YUGOSLAV WORKERS IN FRANKFORT. PUBLIC POLICIES AFFECTING ANY PART OF THIS SOPHISTICATED SYSTEM AFFECT ALL OF THE PARTICIPANTS IN IT.

THE GROWTH IN WORLD INTERDEPENDENCE IN THE LAST FEW YEARS IS STARTLING. FOR EXAMPLE, THE VALUE OF AMERICAN EXPORTS AND IMPORTS HAS SOARED FROM $54 BILLION IN 1966 TO $140 BILLION LAST YEAR.

THE TOTAL VALUE OF EXPORTS AND IMPORTS BY THE INDUSTRIALIZED OECD NATIONS HAS SOARED FROM $480 BILLION IN 1972 TO AN ESTIMATED $850 BILLION THIS YEAR. AND WHILE GNP IN THESE NATIONS WAS RISING BETWEEN 10 PER CENT AND 15 PER CENT DURING THIS PERIOD, THEIR INTERNATIONAL TRADE SOARED 75 PER CENT.

IN THE PAST SIX YEARS, THE SHARE IN OUR GNP ACCOUNTED FOR BY EXPORTS EXPLODED 40 PER CENT. IN ADDITION, THE VALUE OF OUR PRIVAT DIRECT INVESTMENT ABROAD NOW STANDS AT OVER $100 BILLION, AND FOREIGNERS HAVE NOW DIRECTLY INVESTED SOME $14.3 BILLION IN AMERICAN FACTORIES AND BUSINESSES.

I COULD GO ON AND ON, BUT THE POINT IS CLEAR. WHETHER WE LIKE IT OR NOT, WE ARE INTIMATELY INVOLVED IN A "WORLD ECONOMY" WHICH WE INFLUENCE GREATLY AND ARE GREATLY INFLUENCED BY.

WORLD INTERDEPENDENCE HAS MADE US MUCH WEALTHIER THAN WE COULD EVER HOPE TO BE IN ISOLATION. BUT IT HAS ALSO GREATLY FACILITATED THE TRANSMISSION OF INFLATION AND RECESSION FROM ONE NATION TO ANOTHER.

WITH REGARD TO INFLATION, WE SEE THE EVIDENCE OF THIS NEW ECONOMIC PROXIMITY CLEARLY. THE SEVEN LARGEST WESTERN ECONOMIES ENJOYED AN AVERAGE ANNUAL RATE OF INFLATION OF ONLY 3.2 PER CENT FROM 1959 TO 1971. HOWEVER, THE OECD ESTIMATES THAT THIS WILL SOAR TO A VERY BROADLY BASED 14 PER CENT THIS YEAR -- AN OPTIMISTIC PREDICTION IN MY OPINION.

TODAY I WOULD LIKE TO SPEAK ~~BRIEF~~LY WITH YOU ABOUT THE WORLD-WIDE INFLATION WE FACE, HOW I BELIEVE WE GOT HERE, AND WHAT I THINK WE CAN DO ABOUT IT.

OBVIOUSLY THERE ARE NUMEROUS ORIGINS OF THIS PRICE EXPLOSION, SOME OF A ONE-SHOT, TEMPORARY NATURE, AND OTHERS OF A MORE ENDURING CHARACTER.

TWO COMMODITY GROUPS, FOOD AND PETROLEUM, HAVE LEAD THE RECENT WORLDWIDE PRICE ADVANCE.

IN AGRICULTURE, THE PAST TWO YEARS HAVE WITNESSED FEVERISH COMMODITY SPECULATION. RETAIL FOOD PRICES HAVE SOARED SOME 35 PER CENT AT HOME AND MUCH MORE IN MANY PLACES ABROAD. STRANGE NAMES SUCH AS PERU'S HUMBOLDT CURRENT AND CENTRAL AFRICA'S SAHEL, AND EVEN STRANGER GRAIN DEALS, HAVE COME TO THE WORLD'S ATTENTION AS MAJOR FACTORS IN PUSHING UP PRICES AT THE SUPERMARKET.

FERTILIZER, FUEL, FEED, AND EQUIPMENT SHORTAGES, PLUS BAD WEATHER CONDITIONS HAVE LIMITED GRAIN SUPPLY INCREASES TO 3 PER CENT SINCE 1971. YET, FED BY POPULATION GROWTH AND RISING AFFLUENCE, WORLD GRAIN CONSUMPTION HAS EXCEEDED PRODUCTION IN FOUR OF THE PAST FIVE YEARS. AS A RESULT, WORLD GRAIN RESERVES HAVE DECLINED FROM A THREE-MONTH SUPPLY IN 1968 TO A DANGEROUSLY LOW 26 DAY SUPPLY AS OF THIS MONTH.

IN THE ENERGY FIELD, WE HAVE HAD A CATACLYSMIC CHANGE IN PETROLEUM PRICING POLICY BY THE OPEC COUNTRIES. THE OIL-PRODUCING NATIONS HAVE COLLUSIVELY JOINED TOGETHER, GREATLY INCREASED THEIR PRICES, AND MADE A FINANCIAL KILLING. THE TREMENDOUS PRICE BOOST HAS BROUGHT ABOUT A FOUR-FOLD INCREASE IN THE PRICE OF OIL.

THIS INCREASE MEANS A REAL INCOME LOSS TO THE CONSUMING NATIONS OF SOME $75 BILLION THIS YEAR COMPARED TO ONLY $5 BILLION IN 1973, AND THE AMOUNT IS GROWING. THE OECD ESTIMATES THAT ITS EUROPEAN MEMBER NATIONS WILL EXPERIENCE A 4 PER CENT GENERAL PRICE HIKE IN 1974 DUE SOLELY TO HIGHER OIL PRICES.

THE VAST HOLDINGS OF FUNDS IN THE OIL-PRODUCING COUNTRIES, ESTIMATED TO AMOUNT TO AS MUCH AS $400 BILLION BY 1980, HAS INJECTED A HUGE NEW VOLATILE ELEMENT IN THE WORLD FINANCIAL MARKET. IT IS OBVIOUS THAT ANY PATTERN OF REINVESTMENT OF THESE FUNDS WILL NOT CONFORM TO THE OLD ONES. IT IS MOST LIKELY THAT THE ARABS WILL PURSUE MAXIMUM SECURITY AND LIQUIDITY BY PUTTING MOST OF THEIR NEW WEALTH IN THREE OR FOUR COUNTRIES.

THE IMPACT OF SUCH A POLICY ON WEAKER ECONOMIES COULD BE DEVASTATING.

TWO ADDITIONAL SHORT-TERM FACTORS HAVE CONTRIBUTED TO THE WORLD-WIDE INFLATION OF TODAY. FIRST, IN MOST DEVELOPING NATIONS, AND MANY INDUSTRIALIZED COUNTRIES, THE NET RESULT OF THE REVALUATIONS ACCOMPANYING THE INTRODUCTION OF FLOATING EXCHANGE RATES HAS BEEN UPWARD PRESSURE ON PRICES.

SECOND, VIRTUALLY EVERY NATION WAS SUBJECT TO MAJOR INFLATIONARY PRESSURES ARISING FROM THE SIMULTANEOUS WORLD BOOM OF THE LAST TWO YEARS. THIS BOOM, WHICH LEAD TO COMMODITY SHORTAGES, DEMAND-PUSH INFLATION, AND SOARING TRANSPORTATION CHARGES, WAS FUELED AND TRANSMITTED BY THE EXPLOSIVE GROWTH IN WORLD TRADE.

AS I SEE IT, THE GROWTH IN FOOD AND OIL PRICES, REINFORCED BY CURRENCY DEVALUATIONS AND THE WORLD BOOM, ARE THE PRIMARY SOURCES OF TODAY'S DOUBLE-DIGIT INFLATION. BUT THERE ARE A NUMBER OF LONGER-RUN STRUCTURAL FACTORS WHICH CONTRIBUTE TO INFLATION, AND WOULD HAVE GIVEN US SOME SERIOUS "SINGLE DIGIT" INFLATION EVEN WITHOUT THE SHORT-TERM FACTORS MENTIONED ABOVE.

THE GROWTH IN REAL PER CAPITA INCOMES, AND IN WORLD POPULATION, WOULD HAVE PUT SEVERE PRESSURES ON SUPPLIES OF MANY RAW MATERIALS, GOODS, AND SERVICES, AND PUSHED THEIR PRICES WAY UP, EVEN IN THE ABSENCE OF RECENT EVENTS. THIS INCREASED DEMAND CAN ONLY BE SATISFIED BY DIGGING DEEPER FOR COAL, BY PLANTING ~~LESS~~ more even if less FERTILE LAND, BY UTILIZING LOWER-GRADE ORE, AND BY PRODUCING PRODUCTS IN AGING PLANTS. WHILE ALL OF THIS MAY BE NECESSARY TO MEET GROWING WORLD NEEDS, IT WILL CONTINUE TO PUSH UP PRICES.

ANOTHER FUNDAMENTAL SOURCE OF PRESSURE ON PRICES IS THE POLITICAL COMMITMENT OF VIRTUALLY ALL MODERN GOVERNMENTS TO THE VITAL SOCIAL AND ECONOMIC GOAL OF FULL EMPLOYMENT. FEW ECONOMIES HAVE BEEN ABLE TO COME EVEN CLOSE TO ACHIEVING THIS GOAL WITHOUT SERIOUS PRICE INCREASES. THE OBVIOUS EXCEPTION IS GERMANY, WHOSE EXPERIENCE WARRANTS THE CAREFUL SCRUTINY OF OUR POLICY MAKERS.

THE FULL EMPLOYMENT GOAL IS A POLITICAL FACT OF LIFE~~, FOR AS FAR INTO THE FUTURE AS I DARE PEER~~, AND IT IS~~, OBVIOUSLY, A MOST~~ a DESIRABLE POLICY GOAL. WHAT IS AT FAULT IS OUR TECHNIQUES FOR ITS ACHIEVEMENT. FULL EMPLOYMENT CREATES GOODS AND SERVICES, REDUCES TRANSFER PAYMENTS, AND INCREASES REVENUES.

But THE ~~INFLATIONARY~~ IMPACT OF THESE FACTORS IS diminished ~~REINFORCED~~ BY DECLINING ~~RATES OF INCREASE IN~~ PRODUCTIVITY, PARTICULARLY IN THE UNITED STATES.

FOR MANY REASONS, THE INCENTIVE TO INCREASE INDIVIDUAL PRODUCTIVITY HAS DROPPED OFF SHARPLY IN RECENT YEARS. AT THE SAME TIME, EXPANDING monopoly or OLIGOPOLY IN many ~~MOST~~ MAJOR SECTORS OF THE WORLD ECONOMY REDUCES THE NEED TO MAKE PRODUCTIVITY A CORPORATE PRIORITY.

IN TERMS OF LABOR PRODUCTIVITY, THERE IS LITTLE INCENTIVE. TODAY, ONLY A WEAK LINK BETWEEN PAY AND WORK PERFORMANCE EXISTS.

AND LOW SAVINGS RATES AND INVESTMENT LEVELS IN THIS COUNTRY HAVE PRODUCED ~~ABYSMALLY~~ POOR PRODUCTIVITY PERFORMANCE IN RECENT YEARS.

Keep

FOR THE PAST 20 YEARS, AVERAGE ANNUAL PRODUCTIVITY GROWTH HAS BEEN 2.9 PER CENT, BUT FOR THE PAST 10 YEARS AND FIVE YEARS THE FIGURES ARE 2.8 PER CENT AND 2.4 PER CENT RESPECTIVELY — ABOUT ONE HALF THE RATE FOR EUROPE AND ONE-FOURTH THE RATE FOR JAPAN.

Keep

INFLATIONARY FACTORS IN THE PRIVATE SECTOR ARE REINFORCED BY THE ADMINISTERED PRICING PRACTICES OF ~~BIG~~ corporate BUSINESS. THE EASIEST WAY TO INCREASE PROFITS IS TO REDUCE OR ELIMINATE COMPETITION AND THEN CHARGE WHAT THE MARKET WILL BEAR. THIS CAN BE ACHIEVED THROUGH IMPLICIT OR EXPLICIT COLLUSION WITH ~~ERSTWHILE~~ former COMPETITORS, THROUGH MERGER, PRICE LEADERSHIP PRACTICES, MARKET SHARING, AND A VARIETY OF OTHER TACTICS. THE RESULT IS THE SAME: INCENTIVE TO CUT PRICES, OR HOLD THEM DOWN, BY RAISING PRODUCTIVITY IS SERIOUSLY ~~ERODED~~ weakened, IF NOT COMPLETELY DESTROYED.

Keep

~~AS YOU MAY KNOW, I HAVE JUST RETURNED FROM CHINA. LET ME TELL YOU, THE CHINESE KNOW THAT PRODUCTIVITY IS THE KEY TO A GROWING MATERIAL WELL-BEING. THERE IS NO CAPITAL WASTE IN CHINA AND NO FEATHERBEDDING, EITHER. THEY WORK ALL THEIR RESOURCES HARD. I'M NOT ENDORSING THEIR ECONOMIC METHODS. I FOUND THE LOSS IN HUMAN FREEDOM AND INDIVIDUALITY VERY DISTURBING. NEVERTHELESS, THEY WORK HARD, AND THEIR PRODUCTIVITY WILL PAY OFF BY MAKING LARGER SHARES OF AN EVEN LARGER ECONOMIC PIE AVAILABLE TO ALL.~~

INFLATIONARY STRUCTURAL DISTORTIONS ARE NOT CONFINED TO THE PRIVATE SECTORS OF OUR WORLD ECONOMIES. TO A GREATER OR LESS DEGREE, ALL GOVERNMENTS INTERVENE IN THE ECONOMIC ACTIVITY OF THEIR NATIONS.

THIS INTERVENTION, BY ITS VERY NATURE, CARRIES

some ~~A GREAT~~ INFLATIONARY RISK. IT MAY HAMPER THE FREE FLOW OF GOODS AND LABOR; IT MAY INTERFERE SERIOUSLY WITH THE FORCES OF DEMAND AND SUPPLY; AND IT MAY RETARD TECHNOLOGICAL PROGRESS. SUBSIDIES, IMPORT QUOTAS, TARIFFS AND PRICE SUPPORTS, IF NOT VERY CLOSELY MONITORED AND ADJUSTED, MAY ALL CONSTITUTE A LOAD OF BARNACLES WHICH MUST BE PERIODICALLY SCRAPED OFF OUR ECONOMY.

WHAT CAN WE DO TO REDUCE THE INFLATIONARY PRESSURE GENERATED BY THESE LONG AND SHORT-TERM SOURCES OF WORLD INFLATION?

BASED ON RECENT PETROLEUM EXPORTING NATIONS' ACTIONS, RISING FUEL COSTS MAY BE A PERMANENT FEATURE OF THE WORLD ECONOMY. T~~HIS IS BAD NEWS. WE CANNOT, IN THE SHORT-RUN, SIGNIFICANTLY REDUCE THESE FUEL COSTS~~.

ON THE OTHER HAND, WE CAN LIMIT FURTHER INCREASES IN FUEL COSTS THROUGH TAKING AT LEAST FIVE COURSES OF ACTION:

-- FIRST, CLOSE MONITORING OF THE INVESTMENT AND PRICING BEHAVIOR OF INTERNATIONAL OIL COMPANIES;

-- SECOND, A MUCH-EXPANDED ENERGY CONSERVATION PROGRAM;

-- THIRD, CONCERTED POLICY AND ACTION BY ALL MAJOR PETROLEUM IMPORTING NATIONS;

-- FOURTH, A REAL COMMITMENT TO ENERGY RESEARCH FOR SELF-SUFFICIENCY THROUGH A CLOSELY COORDINATED PROGRAM AMONG NON-OPEC NATIONS;

-- AND FINALLY, MAINTENANCE IN OUR COUNTRY OF THE EMERGENCY PETROLEUM ALLOCATION ACT.

PRICE CEILINGS ON DOMESTIC CRUDE OIL PRODUCTION SHOULD NOT BE RAISED DURING THESE INFLATIONARY DAYS, AND ANY INCREASE IN REGULATED NATURAL GAS PRICES SHOULD BE PUBLICLY EXPLAINED AND ACCOMPANIED BY RIGOROUS CONTROLS DESIGNED TO PREVENT WINDFALL PROFITS.

THE OIL PRODUCING NATIONS ARE "RIPPING OFF" THE CONSUMING NATIONS. ~~THEY ARE ACTING IN COLLUSION AND CHARGING AN EXPLOITIVE PRICE FIVE TIMES GREATER THAN THEIR COSTS OF PRODUCTION. THE ONLY LIMIT TO FUTURE PETROLEUM PRICE INCREASES IS THE COST OF PRODUCING SHALE OIL AND OTHER FORMS OF SUBSTITUTE ENERGY.~~

Keep

THEREFORE, AS I SAID BEFORE, WE MUST PUSH RESEARCH INTO THESE ALTERNATIVE SOURCES AS RAPIDLY AS POSSIBLE. IN THIS REGARD, I CALL TO YOUR ATTENTION PASSAGE OF MY SOLAR ENERGY RESEARCH BILL BY BOTH HOUSES OF CONGRESS LAST WEEK. IT PROVIDES SOME $1 BILLION FOR SOLAR RESEARCH DEVELOPMENT AND DEMONSTRATION DURING THE NEXT FIVE YEARS.

AS MUCH AS WE MAY FEEL PUT UPON BY OPEC, THERE IS NOTHING TO BE GAINED BY ANTAGONISTIC POSTURING WITH THESE NATIONS. WE MUST WORK TOGETHER WITH THEM -- THE CONSUMING NATIONS AND OPEC NEED EACH OTHER. THEIR OIL REVENUE IS NO GOOD TO THEM BURIED IN THE SAND, AND WE NEED THEIR OIL.

THIS IS THE COMMON GROUND: THE OIL EXPORTING NATIONS NEED A STABLE, VIABLE WORLD ECONOMY IN WHICH TO INVEST AND FROM WHICH THEY CAN PURCHASE TECHNOLOGY, GOODS AND SKILLS.

~~THE OPEC NATIONS, AFTER THE FIRST BLUSH OF THEIR PROFITS HAS WORN OFF, MUST COME TO REALIZE THAT THEY HAVE A LARGE ROLE IN PRESERVING THE STABILITY OF OUR WORLD ECONOMY.~~ Keep

YES, WE WILL PAY FOR THEIR OIL, BUT THEY MUST NOT PRACTICE OUTRAGEOUS PRICING POLICIES. YES, WE WILL PROVIDE LONG-TERM INVESTMENT OPPORTUNITIES TO THEM, BUT THEY MUST NOT ALLOW THEIR PROFITS TO SLOSH ACROSS THE WESTERN WORLD -- DISRUPTING EXCHANGE RATES AND CAPITAL MARKETS. YES, WE WILL MAKE TECHNICAL KNOW-HOW AVAILABLE TO THEM AND ACCESS TO OUR MARKETS IN YEARS TO COME, BUT THEY MUST DEMONSTRATE THEIR RESPONSIBILITY ON OIL PRICING.

and

WE MUST DEVELOP MECHANISMS IN THE OIL IMPORTING NATIONS TO CHANNEL ARAB INVESTMENT FUNDS INTO PRODUCTIVE USES IN THE CONSUMING ECONOMIES AND TECHNIQUES FOR RE-CYCLING PETRODOLLARS BACK ONTO THE ECONOMIES FROM WHICH THEY CAME.

THE OPEC COUNTRIES HAVE DISPLAYED SOME HOPEFUL SIGNS IN THE LAST SEVERAL MONTHS. THESE HAVE TAKEN THE FORM OF A $3.15 BILLION SUBSCRIPTION TO THE IMF'S "SPECIAL OIL FUND," WELL OVER $1 BILLION IN WORLD BANK BOND PURCHASES, AND LARGE LOANS TO JAPAN.

IT GOES WITHOUT SAYING THAT THE CONSUMING NATIONS' POLICIES MUST BE COORDINATED JUST AS THE OIL EXPORTING NATIONS ARE COORDINATED.

THE CONSUMING NATIONS CAN ONLY LOSE BY "GOING IT ALONE," SINCE TO DO SO SHARPLY RAISES THE POSSIBILITY THAT A COUNTRY MAY ENCOUNTER INSURMOUNTABLE BALANCE OF PAYMENT PROBLEMS. AND, THE BANKRUPTCY OF ANY INDUSTRIALIZED NATION COULD TRIGGER ANOTHER "GREAT DEPRESSION," BECAUSE OF THE CLOSE INTERDEPENDENCE TODAY OF ALL ECONOMIES.

IN AGRICULTURE, IT IS VITAL THAT CORRECTIVE ACTION BE TAKEN TO ELIMINATE BOTTLENECKS TO EXPANDED FARM OUTPUT ANYWHERE IN THE WORLD -- ESPECIALLY THOSE IMPOSED BY FUEL, FERTILIZER AND EQUIPMENT SHORTAGES. IN ADDITION TO SHORT-RUN EFFORTS TO EXPAND FOOD PRODUCTION, WE SHOULD STRENGTHEN RESEARCH EFFORTS AIMED AT IMPROVING CROP YIELDS AND PRODUCTION EFFICIENCY, PARTICULARLY IN THE TROPICS.

MOST IMPORTANTLY, WE MUST MOVE NOW TO ESTABLISH A NATIONAL AND WORLD-WIDE SYSTEM OF RESERVES OF THE MAJOR GRAINS. I HAVE WORKED ON THIS SPECIFIC PROPOSAL FOR YEARS. ~~IT IS VITALLY IMPORTANT THAT SUCH RESERVES BE CREATED TO INSURE GREATER PRICE STABILITY IN FUTURE YEARS AND TO ASSURE THAT FOOD -- OUR MOST PRECIOUS COMMODITY -- IS ALWAYS AVAILABLE TO EVERYONE.~~

Keep

THE NEED FOR ~~SURPLUS~~ GRAIN RESERVES IS COMPELLING AND IN THE LONG-TERM SELF-INTEREST OF FARMERS AND CONSUMERS ALIKE.

AS A MAJOR GRAIN SUPPLIER, THE UNITED STATES ITSELF MUST KNOW WHEN DRASTIC ACTION IS REQUIRED TO PREVENT INTERNATIONAL RAIDS ON OUR FOOD SUPPLY. THESE RAIDS THREATEN THE WELL-BEING OF OUR PEOPLE AND THE VERY LIVES OF MANY OF OUR TRADING PARTNERS.

I HAVE PROPOSED THAT A STAND-BY EXPORT REPORTING SYSTEM BE ESTABLISHED WHICH WILL LET US KNOW, BEFORE THE SHIPS LEAVE OUR SHORES, JUST WHAT OUR FOOD SUPPLY, QUALITY AND PRICE SITUATION IS. THIS EMERGENCY SYSTEM IS DESIGNED TO PREVENT A REOCCURRENCE OF LAST YEAR'S PRICE HIKES DUE TO EXPORT SALES AND SPECULATION. WHEN NEEDED, IT WOULD AUTHORIZE THE USE OF EXPORT QUOTAS TO PRESERVE AN EQUITABLE DISTRIBUTION OF FOOD IN PERIODS OF WORLD SHORTAGE.

THE INFLATIONARY IMPACT OF THE SPATE OF DEVALUATIONS HAS LARGELY WORKED ITSELF THROUGH THE WORLD'S ECONOMIES. THE SAME CANNOT YET BE SAID OF INFLATION GROWING OUT OF THE RECENT WORLD BOOM. DEMAND-PUSH INFLATION CAN AND WILL REOCCUR.

IN FACT, IT WILL REOCCUR AGAIN AND AGAIN AS WE GO THROUGH BOOM AND DEFLATIONARY CYCLES, UNLESS THE WORLD ECONOMIES ACT IN CONCERT TO PREVENT THE OVER EXPANSION WHICH UNDULY TAXES WORLD RESOURCES.

THE MORE PERMANENT STRUCTURAL SOURCES OF INFLATION CANNOT, I BELIEVE, BE ELIMINATED IN THE SHORT RUN, BUT PROGRESS CAN SURELY BE MADE.

TO EASE INFLATIONARY DEMAND-PUSH PRESSURES ON WORLD RESOURCES, TWO BROAD EFFORTS ARE APPROPRIATE. FIRST, WE MUST CHANGE OUR PROFLIGATE LIFESTYLES TO CONSERVE LIMITED WORLD RESOURCES. ~~WE MUST ACCEPT CHANGES IN OUR DIETS, FOR EXAMPLE, TO CONSUME MORE OF OUR PROTEIN FROM MORE EFFICIENT PROTEIN SOURCES.~~ WE SHOULD ALTER OUR BUILDING CODES TO EMPHASIZE FUEL CONSERVATION.

WE SHOULD POSSIBLY IMPOSE "HORSEPOWER TAXES" ON CARS. UTILITY PRICING STRUCTURES SHOULD BE ALTERED TO DISCOURAGE, RATHER THAN [redacted] ENCOURAGE THE USE OF ELECTRICITY. WE MUST UTILIZE THE CONCEPT OF RECYCLING TO PRESERVE RESOURCES FOR THE FUTURE — EVEN IF THIS RAISES PRICES TODAY.

SECOND, THE WORLD ECONOMIES SHOULD MOUNT AGGRESSIVE VOLUNTARY POPULATION CONTROL AND DISTRIBUTION PROGRAMS. ATTITUDES TOWARD SUCH PROGRAMS ARE CHANGING EVERYWHERE TODAY — BUT FAR TOO SLOWLY. WE CAN NO LONGER WAIT FOR RISING AFFLUENCE TO ALTER TRADITIONAL ATTITUDES TOWARDS POPULATION CONTROL; A MORE DIRECT EDUCATIONAL EFFORT IS NEEDED.

A VARIETY OF TECHNIQUES CAN BE USED TO REVERSE THE DOWNWARD TREND IN PRODUCTIVITY. SOME TECHNIQUES THAT WE NEED NOW ARE THE ESTABLISHMENT OF LABOR-MANAGEMENT PRODUCTIVITY COUNCILS IN PLANTS, AND GOVERNMENT PRODUCTIVITY INCENTIVE PROGRAMS, SUCH AS "BONUS PAY" FOR PRODUCTIVITY-ENHANCING IDEAS.

UNDER THE NATIONAL DOMESTIC DEVELOPMENT BANK LEGISLATION I HAVE PROPOSED, INVESTMENT ASSISTANCE COULD BE TIED TO EFFECTIVE PLANS TO ACHIEVE MAXIMUM PRODUCTIVITY.

WE MAY NEED TO REVISE THE CONCEPT OF PROFIT AND TIE IT MORE DIRECTLY TO LABOR'S INCOME. THE REAL POTENTIAL OF PROFIT-SHARING, I FEEL, RELATES DIRECTLY TO PRODUCTIVITY AND IS YET TO BE TAPPED.

WE NEED A MUCH MORE VIGOROUS ANTITRUST ENFORCEMENT EFFORT. I BELIEVE SUCH AN EFFORT WOULD STIMULATE BOTH PRICE COMPETITION AND A GREATER EFFORT BY BIG BUSINESS TO COME UP WITH PRODUCTIVITY BREAKTHROUGHS.

WE NEED TO STOP GIVING TAX BREAKS JUST FOR DOING THINGS THE SAME OLD WAY. THE INVESTMENT TAX CREDIT SHOULD BE PROVIDED ONLY FOR PRODUCTIVITY ENHANCING INVESTMENTS.

DEALING WITH THE INFLATIONARY STRUCTURAL RIGIDITIES OF THE PUBLIC SECTOR WILL BE, PERHAPS, THE MOST DIFFICULT CHALLENGE WE CONFRONT. ESSENTIALLY ALL OF THESE RIGIDITIES IN EVERY COUNTRY HAVE STRONG, POWERFUL VESTED SUPPORT. TO DEAL WITH PUBLIC SECTOR RIGIDITIES IN THIS COUNTRY, THE JOINT ECONOMIC COMMITTEE IN ITS

INTERIM REPORT ON INFLATION, RELEASED SATURDAY, CALLED FOR THE ESTABLISHMENT OF A COMMISSION TO EXAMINE IN DETAIL ALL FEDERAL SUBSIDY, TRADE CONTROL AND PRICE SUPPORT PROGRAMS. I URGE YOU TO FAMILIARIZE YOURSELVES WITH THE ENTIRE REPORT. I BELIEVE IT CONTAINS A TOUGH, BUT FAIR, SERIES OF PROPOSALS TO DEAL WITH THE CURRENT ECONOMIC CHAOS.

I BEGAN THIS TALK WITH THE ADMONITION THAT WE ARE AT A PIVOTAL POINT IN WORLD ECONOMIC AFFAIRS. THE INTERDEPENDENCE WHICH I NOTED EARLIER MEANS THAT, FOR REALLY THE FIRST TIME, ECONOMIC ACTIONS TAKEN BY ONE NATION DIRECTLY AND FORCEFULLY IMPACT ON OTHER NATIONS. THE UNITED STATES IS AFFECTED BY EVENTS IN THE EURODOLLAR MARKET, AS WELL AS BY GOVERNMENT

ACTION TO END A MAJOR STRIKE IN ITALY. DOMESTIC ECONOMIC POLICY DECISIONS CAN NO LONGER BE MADE IN VIRTUAL ISOLATION FROM OUR NEIGHBORS. UNTIL WE RECOGNIZE THIS, WE WILL BE SUBJECT TO EVEN MORE COMMON EPISODES OF CRITICAL ECONOMIC DISRUPTIONS CATCHING OUR POLICY MAKERS BY SURPRISE.

THE DANGER OF THIS ATTITUDE IN THE CURRENT ATTACK ON WORLD-WIDE INFLATION IS PARTICULARLY DISTURBING. IF ALL OF THE INDUSTRIALIZED NATIONS, ACTING INDEPENDENTLY, PURSUE BROADLY DEFLATIONARY MONETARY AND FISCAL POLICIES, THESE WILL HAVE AN EFFECT THAT IS MUCH MORE DEFLATIONARY THAN EXPECTED. THE RESULT WILL BE THAT OUTPUT AND EMPLOYMENT WILL DROP MUCH MORE THAN TARGETED.

WHEN THE BASIC RATE OF INFLATION ARISING FROM STRUCTURAL RIGIDITIES ACCELERATES DUE TO ONE-TIME SHOCKS, SUCH AS IN THE PAST YEAR, THERE MAY BE A GREAT RUSH BY GOVERNMENT LEADERS TO THROW A BUCKET OF WATER ON THEIR ECONOMY WHEN ONLY A DAMP TOWEL ON THE "WORLD ECONOMY" IS NEEDED. THIS OVER-REACTION WHEN REINFORCED ABROAD, COULD IN FACT FULFILL THE DIRE MARXIAN BOOM-BUST PREDICTIONS -- SOMETHING EVEN THE 1930'S FAILED TO DO.

WE MUST BE ON THE ALERT, THEREFORE, TO PREVENT THE USE OF BROAD, SIMPLISTIC DEFLATIONARY POLICIES WHICH ARE NOT ADEQUATE OR APPROPRIATE FOR RESOLVING TODAY'S INFLATION. EVEN MORE IMPORTANTLY, HOWEVER, WE MUST TURN OUR GOVERNMENTS TOWARD THE USE OF MORE PRECISE, DISCREET, SENSITIVE POLICY TOOLS AND AWAY FROM DEPENDENCE ON BLUNT, BROAD-AXE TOOLS WHICH INFLATE OR DEFLATE ENTIRE ECONOMIES.

THE WORLD IS CHANGING. WE NEED MONETARY AND FISCAL POLICY, BUT WE ALSO NEED TO RECOGNIZE THAT THEY ALONE ARE INADEQUATE. WHAT THEN ARE THE NEW INSTITUTIONS AND POLICY TOOLS WE NEED?

I AM CONVINCED THAT, IF WE ARE GOING TO BEGIN TO ANTICIPATE PROBLEMS AND DEAL WITH THEM WITHOUT UNWISELY DISRUPTING THE ENTIRE ECONOMY, WE MUST SERIOUSLY CONSIDER ESTABLISHING SOME ~~STRICTLY~~ AMERICAN FORM OF ECONOMIC PLANNING ORGANIZATION. SUCH AN AGENCY, CAPABLE OF GATHERING DATA AND FOLLOWING THE ACTIVITIES OF MAJOR ECONOMIC SECTORS, WOULD THEN BE IN A POSITION TO RECOMMEND APPROPRIATE GOVERNMENT ACTION TO DEAL IN A DISCREET, PRECISE MANNER WITH THE PROBLEMS OF PARTICULAR SECTORS.

I HAVE PROPOSED, FOR DISCUSSION PURPOSES, THE "BALANCED NATIONAL GROWTH AND DEVELOPMENT ACT" TO CREATE SOME OF THE APPARATUS THAT WOULD BE NEEDED. I URGE YOU TO GIVE THIS APPROACH YOUR ATTENTION.

I KNOW THAT PLANNING IS A DIRTY WORD -- IT CONJURES IMAGES OF BUREAUCRATS INTERFERING WITH EVERY BUSINESS DECISION AND WITH WORKERS' LIVES. BUT I REJECT THIS IMAGE. WE MUST FOCUS OUR RESPONSES TO ECONOMIC DISLOCATIONS MORE PRECISELY, AND A DATA GATHERING AND PLANNING AGENCY CAPABLE OF RECOMMENDING SPECIFIC POLICIES FOR INDIVIDUAL SECTORS OF THE ECONOMY IS A NECESSARY FIRST STEP. WITHOUT THIS BASIC CHANGE, WE CAN RESIGN OURSELVES TO A VERY DISRUPTIVE FUTURE IN WHICH ALL OUR PUBLIC POLICY EFFORT IS DEVOTED TO RESPONDING, WITH NO ANTICIPATION AND INITIATIVE.

FINALLY, I MUST STATE FRANKLY MY SERIOUS DISAPPOINTMENT WITH THE ADMINISTRATION'S RESPONSE UP TO NOW TO TODAY'S INFLATION. THIS ADMINISTRATION IS VIEWING INFLATION FAR TOO FREQUENTLY AS ONLY AN AMERICAN PROBLEM. IT HAS FAILED TO COME TO GRIPS WITH THE IMPERATIVES FOR INTERNATIONAL ACTION TO ADDRESS A WORLD-WIDE PROBLEM.

~~MOREOVER, THE ADMINISTRATION IS GIVING THE STRONG IMPRESSION OF BEING SATISFIED WITH MACRO-DEFLATIONARY POLICY -- THE MEAT-AXE APPROACH TO COMBATTING INFLATION AND HOPEFULLY AVOIDING RECESSION.~~

BUT SUCH ECONOMIC THINKING AND POLICY-MAKING ARE OUTDATED AND EVEN DANGEROUS. THEY HAVE ALREADY BEEN OVERWHELMED BY WORLD EVENTS WHICH HAVE PRODUCED A TOTALLY NEW ECONOMIC SITUATION.

IT IS MY STRONG HOPE THAT THE SUMMIT CONFERENCE ON INFLATION WILL INCLUDE A FRANK RECOGNITION THAT TARGETTED RESPONSES TO SPECIFIC ECONOMIC SECTOR PROBLEMS ARE REQUIRED, AND THAT A REVOLUTION IN INTERNATIONAL ECONOMIC RELATIONS IS INDISPENSABLE IN SOLVING PROBLEMS THAT THREATEN THE WELL-BEING OF ALL MANKIND.

TRAGICALLY, IT IS THE WORKING MEN AND WOMEN, THE FARMER AND THE SMALL BUSINESSMAN WHO WILL BEAR THE BURDEN OF GOVERNMENTAL FAILURE TO ADDRESS THESE NEW IMPERATIVES IN ECONOMIC POLICY-MAKING.

I URGE YOU TO JOIN ME IN CALLING FOR THESE ACTIONS THAT RESPOND TO THE ECONOMIC REALITIES OF TODAY. THE NEW EVOLVING WORLD ECONOMIC ORDER CAN LEAD EITHER TO MAJOR CONFRONTATION AMONG NATIONS OR TO AN ERA OF INTERNATIONAL COOPERATION.

MAKING THE CHOICE BETWEEN THESE ALTERNATIVES DEPENDS ENTIRELY UPON THE UNDERSTANDING AND LEVEL OF PARTICIPATION OF BUSINESS, LABOR, AGRICULTURE, BANKING, AND OTHER ECONOMIC SECTORS. TO REMAIN DIVIDED IS TO FALL. TO JOIN TOGETHER IS TO SUCCEED IN ACCOMPLISHING THE MOST DIFFICULT AND CHALLENGING ASSIGNMENT BEFORE US TODAY, AND IN THE COMING DECADES.

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