

Outline of Talk by Chairman
Burns in New York, February 4

*has been behind
inflation
admitted during
the past
18 months*

1. What has been accomplished in the battle to control inflation?
 - A. Excess demand eliminated--since about the middle of 1969.
 - B. Rise in unit labor costs slowed--from about a 7 per cent rate to about 2 to 3 per cent.
 1. Not a reflection of a slower rise in wage rates.
 - a) Some slowdown in wage increases in nonunionized areas.
 - b) But union wage rates have continued to skyrocket.
 2. But productivity gains have improved--reflecting wide-spread efforts to cut costs.
 - C. Some reflection of this better cost performance in the rate of price increase--particularly, in wholesale prices of industrials (the average rate of increase over the past 4 months has been about 3-1/2 per cent--compared with around 4 per cent in 1969).
 - D. More conservative attitudes now prevail in the business and financial community.
 1. Cost-cutting is one evidence.
 2. Also, businesses are more carefully screening capital expenditures programs.
 3. In the financial markets:
 - a) Corporations following more conservative policies.

1. More reliance on equity issues.

2. Funding of short-term debt.

b) Leaders screening loan applications with greater care.

c) Speculation in equities no longer a problem.

E. Tensions in the money and capital markets have lessened.

1. The crisis atmosphere prevailing earlier has been dispelled.

2. Supplies of credit more readily available.

3. Interest rates have fallen markedly--including mortgage and consumer loan rates, which are notoriously sticky.

F. A better structure of production has developed.

1. Defense expenditures down--both absolutely and as a share of national output.

2. Business capital spending has levelled out.

3. Housing expenditures up.

4. State and local construction should soon improve.

G. Current account in the balance of payments has improved--though less than we would have liked.

2. Monetary and fiscal policies more stimulative since early 1970. Is there any danger that we may lose the ground we have fought so hard to win?

A. Virtually no danger of excess demand reemerging in the next year or so.

- 1) Monetary policy is moderately stimulative, not exceptionally so.
- 2) The budget for fiscal year 1972 will show a deficit--but not because of excessive expansion in Federal expenditures. Deficit reflects the sluggish economy.
- 3) Private spending propensities remain relatively weak.
 - a) Businesses more cautious.
 - b) Consumers also cautious--personal savings rate is high.
 - c) These attitudes could change; we stand ready to adapt policy as needed.

B. There is danger, however, that wage rate increases will continue at above productivity gains.

1. Major contracts this year in steel, aluminum, and cans.
2. Workers will seek compensation for past increases in prices.
3. Excessively large increases in unionized industries tend to spread.

3. More may be needed in the way of "incomes policies".

- A. Aggregate monetary-fiscal policies inadequate in present situation.
- B. Steps already taken have been in the right direction, but more may be needed--particularly, efforts to moderate upcoming wage settlements in major industries.