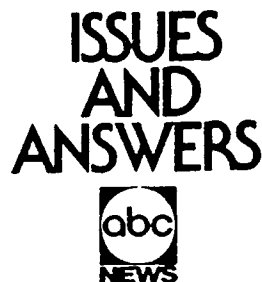


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GUEST:

DR. ARTHUR BURNS, Chairman
Federal Reserve Board

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DR. ARTHUR BURNS, Chairman Federal Reserve Board

MR. CLARK: Dr. Burns, the President will send Congress this week a budget that will have a deficit of about \$43 billion. He will reportedly ask for a tax cut of \$10 billion and that will probably be increased by Congress. Are the President's budget and tax proposals going to have your support?

DR. BURNS: I haven't seen the President's detailed tax or expenditure proposals, but the Board's philosophy for the President which has been enunciated for some time, I certainly can and do support. The American people are taxed heavily. Our Federal Government has been growing by leaps and bounds. Government expenditures at all levels now account for almost 40 per cent of the dollar value of our nation's production. It is high time that we cut federal expenditures and it is high time also that we lightened the tax burden on the American people.

MR. CLARK: Dr. Burns, you were opposed, I believe, last fall, to the extension of the tax cuts which were extended on January 1st. Since then we have witnessed a substantial economic recovery. Why would you now think that it might be time for more tax reductions?

DR. BURNS: I am not in favor of tax reductions as such. I am in favor of a cut in government expenditures, simultaneously, a cut in taxes. If you do proceed on that principle, you will not be increasing the federal deficit. What worries me is the enormous size of our federal deficit and I think in some directions it is desirable to cut taxes, particularly to stimulate business investment which has been lagging.

MR. CORDTZ: Should we perhaps cut taxes and the budget by tens of billions of dollars more and leave those programs to the states to finance?

DR. BURNS: Well, there is a limit to what many of our states can do. Our taxes at the state level are heavy. Our states are required by and large by their constitutions to avoid deficits and if we left matters up to the states, many things that the Federal Government now does and has to do would probably be left undone.

MR. CORDTZ: Do I understand then if there are not substantial cuts in spending you would be opposed to cutting taxes, even to stimulate the economy right now?

DR. BURNS: Well, I don't think the economy needs any special stimulation. The economy is doing quite well. We have had a rapid recovery of production, a rapid recovery of employment, our retail trade has been strong. The recovery which has been under way since, oh, last April, last May, is proceeding quite satisfactorily. I don't think we need any special stimulative measures. However, looking to the long future, we need to strengthen capital investment in our country. If we are to have the kind of prosperity that the American people want to have, if we are to create jobs, if we are to become more efficient, we need to invest more in productive capital than we have been doing, and to that extent I would favor tax adjustments of a kind which stimulate capital investment, but I would be in favor of that only if we have simultaneously cuts in governmental spending.

MR. CLARK: Dr. Burns, would you regard the lag in new spending by industry on plants and equipment, so-called capital investment, as one of the clouds hanging over the economic recovery?

DR. BURNS: Not really. The capital investment, business capital investment has been lagging in this recovery process, but that is fairly normal at this stage of the business cycle, and I would expect business capital investment to recover and recover materially this year.

MR. CLARK: The Federal Reserve Board on Friday reduced the interest rates you charge banks to five and a half percent. Does that mean that you are less concerned about inflation than you were a few months ago?

DR. BURNS: Not at all. It doesn't mean that. This was merely a technical adjustment. Our discount rate was out of line with the market, and we straightened things out.

MR. CLARK: Are you still concerned about inflation?

DR. BURNS: I am deeply concerned about inflation. The inflation on which this country embarked in the mid-1960's was responsible for the recession that we had, and this was by far the deepest recession of the entire post-war period. The inflation rate has come down. It was a good deal lower during 1975 than during 1974, but around mid-year, approximately July of last year, the inflation rate rose once again, and this is a warning that we must get our fiscal house in order, and it is a warning, also, that we must not embark on new so-called stimulative governmental measures. If we do that, the rate of inflation is likely to accelerate, and that may bring on, before very long, another recession, and a recession that may well be deeper than the one that we have just gone through. We had better watch our step and watch it carefully.

MR. CORDTZ: Dr. Burns, in spite of those future dangers, inflation has cooled off significantly recently. At the same time, however, the unemployment rate has been virtually the same for half a year. Now isn't it time to focus on the problem on which there has been very little improvement?

DR. BURNS: Well, I think there has been improvement. Improvement has been inadequate, insufficient; but there has been improvement.

The unemployment rate has come down from approximately 9 percent to approximately 8 percent. Now that is much too high, but we must also recognize, first of all, that the character of the unemployment problem has been undergoing a change. During the past six months the number of job losers as a proportion of total unemployment has dropped very sharply, and the unemployment has remained high because so many people have reentered the labor force, or entered the labor force for the first time. And the fact that job losers, the number of job losers in the unemployment total has been declining, and the fact that the number of new entrants and reentrants has been increasing, all that means is that the employment climate, underlying economic conditions have improved.

Now, one reason, of course, why unemployment has remained high is that we have extended unemployment insurance benefits to a period of 65 weeks. It is much too long. And that is keeping some people, perhaps many people, out of the active job market.

I think it is important to bring the rate of unemployment down. I don't think the right way to do it is to embark on new spending programs or new massive tax reductions. We have to reexamine our labor market policies.

For example, we have a minimum wage law which keeps teenagers out of the job market. Now, that kind of legislation has to be revised. We ought to have efficient job banks to match the unemployed with job vacancies.

MR. CORDTZ: Dr. Burns, you mean you would like to see a special minimum wage rate for teenagers less than the \$2.30?

DR. BURNS: Yes; definitely.

MR. CORDTZ: At what level might you set it?

DR. BURNS: I don't know I would want to specify it. It ought to be well below the statutory minimum wage, so as to enable youngsters to get jobs. They are being shut out of the job market in large numbers at the present time. In a country like Japan you have no unemployment for teenagers. Why? Because the wage for teenagers, people who start in industry, is low.

MR. CORDTZ: But don't they simply displace older people who would be doing that job for more money and who need the money?

DR. BURNS: I doubt it.

MR. CLARK: Dr. Burns, you did stir some feathers several months ago with your proposal that would bring a sharp reduction in the length of unemployment benefits. I think you said a maximum of 13 weeks instead of the current 65 weeks. Some people were very alarmed by that, and you would couple with that a plan that would put people to work who wanted to work, but below the minimum wage, which caused most of the sparks.

DR. BURNS: Yes.

MR. CLARK: The criticism of that was centered mainly on the fact if you have an unemployed worker with a family and perhaps a mortgage on his home and he is cut off after 13 weeks of unemployment benefits, he would have to go to work at something like \$60 or \$80 a week.

DR. BURNS: What does he do now?

MR. CLARK: He draws unemployment insurance for 65 weeks.

DR. BURNS: He does nothing. He would be better off. His family would be better off if he had a job.

He, of course, while he has this governmently-furnished job, he could go out and should be going out looking for a regular job in industry

and the wage that is paid him in this public service employment should be low so that he would have a strong incentive to find an attractive job in a private industry.

MR. CLARK: But if he didn't find a job, he might lose his home and have to stop sending his child to college.

DR. BURNS: He is no better off drawing unemployment insurance.

MR. CLARK: He might be \$70 or \$80 a week better off. You are talking about \$70 under your plan as opposed to a maximum of up to \$150 in unemployment benefits.

DR. BURNS: Well, I don't think people ought to be paid for doing nothing. I think the government should be compassionate and I think people should have an adequate opportunity to look around to find a job, to create new opportunities for themselves, but to put people on unemployment insurance for a period of 65 weeks tends to demoralize people; it is very costly to the taxpayers, and I think that instead of relying on their own resources people come to rely on government and I don't think this would be good for the future of our country.

MR. CORDTZ: Dr. Burns, the Washington Post today had a story that you had declined to reveal to members of Congress the foreign deposits in large American banks. Shouldn't the government make more information available to the public on such things as which governments have deposited heavily in our banks?

DR. BURNS: Well, as for the story, the Congress wanted to obtain, or the Senate Foreign Relations Committee was considering a proposal under which they would obtain information from individual banks on deposits of citizens from individual foreign countries. Now, we were asked for our opinion. We supplied our opinion. We worked out an arrangement with the Senate Foreign Relations Committee under which data would be gathered on a plan that was satisfactory to them. We didn't rebuff the Congress; we cooperated with the Congress, helped Congress to understand the problem.

Now, the second part of your question is, shouldn't we gather more information? We are gathering a good deal of information now. We publish vastly more information on banking than does any country in the world. Now, in some directions we undoubtedly can improve our data-gathering system and our publication of information on banking, and that is something that I and my colleagues on the Federal Reserve Board are always considering and we have sympathy with this broad approach but one has to be discriminating as to the type of data that is released and as to the time when these data are released.

MR. CORDTZ: To pursue that question, this latest story is one of a rash of stories about the conditions of a couple of the largest banks of the country.

Is the public entitled to know more about the banks that the Fed regards as having problems?

DR. BURNS: Well, when you speak of banks having problems, we have 14,000 banks in the country and our banking system is very sound. We have gone through a period of hectic inflation. Some mistakes were made by our banks, just as mistakes were made by many of our business firms, and now and then a small number of banks will face some problems.

Now when these problems come to our attention we work with the banks and try to help the banks to solve the problems. In some cases we have taken very strong measures, but these have been extreme cases. This hasn't been necessary.

MR. CLARK: Dr. Burns, you warned the nation's bankers about a year ago they were making too many risky loans. Is this still a matter of serious concern to you and the Federal Reserve Board?

DR. BURNS: You must be referring to a speech I made in Honolulu in, I believe, September 1974.

MR. CLARK: Yes.

DR. BURNS: And I did warn the bankers that they had over-extended themselves in various directions.

Now, since then the bankers have not needed my warning. I think they have reformed their ways and we have prudent banking in our country now. We have better banking than we have had in many a year because bankers now recognize that what I said in September, 1974, was correct, and they have learned. They have made some mistakes and they are in the process of correcting them and this is a very wholesome process. You have had a significant improvement this year in the ratio of bank capital to bank liabilities; liquid assets of banks have grown and their credit position, liquidity, their capital position, has improved. Their reliance on volatile deposits has diminished.

I think while we have difficulties here and there the American people can rest assured our banking system is sound, is well-managed, and that the federal regulators are very much on the job.

MR. CLARK: Dr. Burns, to turn rather abruptly to another subject, you are being used, as you know, as a political target by a number of Democrats and several of those running for President. If a Democrat with whom you strongly disagreed on economic policy was elected President, would you resign as Chairman of the Board?

DR. BURNS: No, I would not, because if I did, I would be introducing a political dimension into the activity of the Federal Reserve. The Federal Reserve has been a non-partisan and non-political island in a very political city and we must remain that.

MR. CLARK: But couldn't it lead to a rather chaotic situation in the formulation of economic and monetary policy if you had a President trying to go one direction while the Chairman of the Fed was going another direction?

DR. BURNS: Well, one can imagine all kinds of difficulties, to be sure. I think things would work out and if they don't we will face up to the problem if, when and as it occurs.

MR. CORDTZ: Sir, those who argue the Federal Reserve Board has more control over the economy than any other single institution, and yet the Federal Reserve Board's membership is seven men who are not elected and who have very long terms. Shouldn't the Board be more accountable to the voters directly?

DR. BURNS: I think people tend to exaggerate the power the Federal Reserve Board has. I think we have exercised our power, the power that we do have, it is limited, but it is still considerable, in the interests of the American people. We are responsible to the Congress.

Last year I testified 17 times before Congressional committees. I meet with Congressional groups, individual Congressmen regularly. My Congressional mail is voluminous, and it is answered conscientiously. The same is true of my colleagues who also testify and also are responsive to Congressional inquiries. So I think that the Federal Reserve is rather close to the thinking of the American people. Beyond that, we have in our Federal Reserve Bank about 270 directors, drawn from all walks of life, all parts of the country. They are in constant touch with us. So we are not living in an ivory tower.

MR. CORDTZ: The Fed also has a highly respected economics staff. What does that staff foresee for this year for our economy?

DR. BURNS: Well, the staff, our staff, makes its projections, and you know we have a rule that the staff, itself, worked out, of adapting its forecast, every month. Now, for me to tell you precisely what our staff thinks today would I think be a little misleading, because a month from now our staff may arrive at a different judgment. Our staff has the unique habit of checking on its forecasts and revising them constantly.

MR. CLARK: Could you tell us in a general way what your personal forecast is for the coming year?

DR. BURNS: Yes, I will be glad to. I think we will have a good year. The expansion that we have had has developed some momentum. The industrial production I believe rose at an annual rate of 15 percent. During the third quarter employment rose sharply, about a million and a half since last April or thereabouts. Retail trade is strong. We had a remarkably good Christmas season, and retail sales are continuing at a strong clip this month. So the economy has now developed a forward momentum.

The psychology of consumers has improved. Consumer confidence is returning. The same is true of the business community and I think what has been happening in the stock market is an indication of that. And I would expect consumer spending to keep rising.

Our export trade is good, strong. We have become competitive with respect to the rest of the world.

Now, the housing has been improving. Residential construction is still at a low level, but I think it is climbing up gradually.

Now the one lagging factor has been business capital investment, but there are indications that business capital investment will also be improving before long.

Now I expect the economy to continue advancing, I expect unemployment rates to come down, though unfortunately it will still remain high, this year.

MR. CLARK: Dr. Burns, it has been a pleasure having you with us. I am sorry, we are out of time. Thank you for being with us on ISSUES AND ANSWERS'

DR. BURNS: Well, thank you.