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Confidence and the Economy - Address by Senator Edmund S. Muskie to the Conference of Institutional Investors

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FOR RELEASE

ADDRESS BY SENATOR EDMUND S. MUSKIE
TO THE CONFERENCE OF INSTITUTIONAL INVESTORS
NEW YORK HILTON, NEW YORK CITY
MARCH 17, 1971 1:00 P.M.

My fellow Democrats--well you are Democrats aren't you--after the last two years.

Let me say right off that to discuss before this audience a subject like "confidence and the economy"--which is what I understand I'm supposed to talk about--requires a certain amount of courage. I don't say that because I want to brag about how brave I am--and certainly do not promise a bravuro performance.

There was a great actress during the 1920's who had every talent except the ability to stay on a diet. She was a great woman, in more ways than one.

Having taken a taxi from Orly Airport to the Hotel Ritz, she was backing out of one of those Paris taxicabs while asking the driver, "Where is the entrance to the Hotel?"

"A derriere Madame," said the driver. "A derriere." (Meaning, of course, "to the rear.")

"I don't speak French," said the lady. "What do you mean--a derriere?"

Said the Paris cabman, contemplating the lady's very ample posterior as it emerged from the taxi: "If you don't know, Madame, nobody does."

I think it is probably safe to say that more hard thinking has been done by the people in this room during the past month about the relationship between "confidence" and the economy than has been done in Washington all year.

If you don't know, nobody does.

And, I'm sorry to have to tell you, that is exactly the condition which prevails.

For almost forty years we have kept the economy moving forward. The Securities and Exchange Commission, the Wagner Act, the Minimum Wage Law, Social Security, the Federal Deposit Insurance Corporation--all these and more we have created to strengthen our economic foundations.

We have laid still another foundation in recent weeks--the Securities Investors Protection Corporation. We know it is only a first step toward improving our capital markets. We will be called upon to consider many more.

But what is important is that we have begun.

We must begin taking other steps. We must take steps now to reverse inflation and to create new jobs.

I'm a lawyer, not an economist. But one of my economist friends recently said this to me: If you were to take a sophomore economics student and give him this problem--construct a model in which the country would be at war, interest rates would be at an all-time high, inflation would be galloping somewhere between 5 and 7 percent a year, and unemployment would be rising right along with the war and the inflation--he would tell you that such a model is an economic impossibility. And he'd be right. That's a grade "A" answer. Yet it is exactly what we've been living through.

Personally, I'm just an odd-lot trader--and I am confused. What concerns me is that you may be just as confused as I am--and that is a national problem with which I, as a citizen and a United States Senator, must be concerned.

Perhaps it would be appropriate to mention another famous figure of the 1920's--Dr. Coue--the famous Dr. Coue, who toured the country preaching his own sure-fire method for health and salvation. It was to repeat over and over again the words, "Every day, in every way, I am getting better and better." This has been so typically the approach to our economic problems in Washington of late that it is hardly surprising to learn that the public has become skeptical.

At the beginning of 1969, we were told that stopping inflation was our number one priority, and that it was going to be done without recessions, deflation, or unemployment. We all know what happened.

We got the recession, we got the unemployment--and we kept the inflation.

The growth of the gross national product came to a grinding halt. In January, the Administration economists were telling us that the corner had been turned, and that we could look forward to a strong first quarter. Two days ago, the Federal Reserve Board informed us that industrial production had dropped in February by .4%.

That report was issued, incidentally, a few hours after the Undersecretary of the Treasury had finished assuring the American Bankers Association in Washington that 1971 "will be a year of good, healthy, balanced expansion." This same spokesman said that we can be sure of this because consumers will start spending more freely because, while in his words, there is "some uncertainty," there is "no underlying lack of confidence" in the nation's economy.

Anyone who has been studying the sales of durable goods, and the rise in the savings rate of disposable income--as I am sure all of you do as a matter of routine--will have some difficulty finding signs of increased consumer confidence.

By now it must be abundantly clear that I am not bursting with optimism about either the direction of our economy or the consumers' confidence in that economy. Now, in this period of neo-Coueism, that is supposed to be a very naughty thing to say.

But whatever the risk, someone, somewhere--at least from time to time--needs to look at the facts.

Is it any wonder that public confidence in the economy is the lowest it has been since the end of World War II?

When the slack in our productive capacity stands at 50 billion dollars; when business executives and skilled engineers are in line for food stamps in Seattle; when wholesale prices climb 9/10ths of one percent in February alone, is it any wonder that people are uncertain and discontent?

An investor's life has not been easy in recent years. Nor has a Senator's.

We are faced with continuing discord between business and labor. We are faced with rising welfare costs and dwindling revenues in our states and cities. We are faced with growing tensions among people with jobs and people without jobs.

We are faced with more than 300,000 American veterans of the Vietnam War without jobs.

What confidence they must have in their nation's economy. What confidence they must have in their government's ability to do what it can, and in the ability of business to do what it can.

Unemployment is a damaging way of life, for all Americans. So is rampant inflation a damaging way of life, for all Americans.

Let us look at the facts of unemployment. Late last fall we were being told that we could expect to see unemployment start shrinking immediately as soon as we had a business upturn. There were confident predictions that we were on our way back down to a less than 4% level of unemployment. The fact is that in three of the four expansion periods since World War II, the decline in unemployment did not start until after the expansion was well underway. And in 1958, and again in early 1961, the unemployment rate was still getting worse three full months after the economy had indisputably started moving. So, if recent history is any predecent, we cannot really anticipate booming employment for a good many months ahead. For it is impossible to say that we have yet seen any firm signs of business upturn--the current stockmarket notwithstanding.

Business profits--which of course affect price-earnings ratios and therefore the securities market--may indeed rise sharply. It is normal for them to fall sharply during a recession and rise rather quickly once the economy begins to expand. But here again, history may be trying to tell us something. During the post-depression expansions of 1949 and 1953, corporation profits rose approximately 70%. But in the 1958 expansion, they rose 55%; and in the 1961 upturn, they rose only 23%. I invite you to look at such matters as the increasing cost of labor, and ask yourself whether the rise in corporate profits during the next period of expansion is likely to be closer to the 70% figure or the 23% figure.

As we near the end of the first quarter, 1971, the Nixon Administration's forecast of a total GNP of $1,065 billion is even less plausible than most forecasters believed when it was initially offered. In fact, not only private economists and forecasters, but the Chairman of the Federal Reserve Board and former Chief of the President's own Council of Economic Advisors, Arthur Burns, considers it vastly overoptimistic. We are near the end of the first quarter, and it is not in sight.

If we are to really restore confidence in the economy, we must have an end to numbers games--or "game plans" as I gather such slight-of-hand is now called. We need a frank admission that those in charge of our fiscal and monetary policies initially misjudged the situation. And we need some indication that they have learned enough from recent history to help us avoid repeating it in the future. In the final analysis, the consuming public will believe only in results. Attempts to conceal the lack of results by papering over the economic problems with optimistic speeches will, in the end, result only in a further deterioration of the very confidence we are trying to instill.

I realize that pessimism is unpopular. Pollyanna has always been more welcome in the dining room than Cassandra. But if we are going to get back to a balanced economy that will give us the confidence and the expansion which we all want, and the country so desperately needs, then we will have to have decisive leadership and significant actions in fiscal policy, tax policy, labor policy and Indochina policy. A policy of postponement and prayer will not suffice.

But so long as those from whom leadership is expected stand before the public in the role of Micawber assuring us that we need not worry because "something will turn up", I am afraid I have to say that, in my opinion, the vital economic indicators are not likely to turn up either.

It is not enough to point an accusing finger at this industry or that labor union. Nor is it enough to engage in scapegoat economics.

We need a better approach. We need to encourage substantial restraint by both business and labor. That is why the concept of a wage-price advisory board has my support.

That concept has been urged upon us by leading economists, by the Federal Reserve Board, by the Committee for Economic Development, by Republicans and Democrats alike.

We have failed up to now to control inflation without a wage-price advisory board. There is every reason to give such a board a chance.

Let the President try to restore a sense of public responsibility to key wage and price decisions. Let him call on business and labor to observe a wage-price ceasefire, while a wage-price advisory board prepares its initial recommendations.

I do not advocate broad government controls. We tried that during the Korean War, when I served as Director of price stabilization in Maine. I view a repitition of that experience with distaste.

A wage-price advisory board is a sensible alternative. It is the kind of ongoing institutional change we need if we are to preserve and protect the public interest.

We must also work now to stimulate employment with all the fiscal and budgetary tools at our disposal. When we work for jobs we work for everyone's prosperity. The fact remains that American corporations have never had a good year with unemployment on the rise.

Congress has already taken what I regard as a significant step toward increasing the number of jobs. It has passed a 10% increase in social security benefits and has deferred added payroll taxes this year. Ten percent more in benefits would do little but help the elderly meet the rise in living costs since 1969. The difference between 10 percent and the 6 percent which the Administration has urged would cut at least another quarter point off the unemployment rate.

I believe we must take the following additional steps:

First, we must invest the billion dollars which Congress appropriated last year for housing, for water and sewer improvements, for urban mass transit. These investments could rapidly create another 200,000 jobs.

Second, we must accelerate some of the personal income tax savings now scheduled for 1972 and 1973. The estimated increase in purchasing power of 4.5 billion dollars could stimulate the creation of at least half a million jobs.

Third, we must enact a public service employment program. State and local governments today could offer more than 250,000 new jobs if they had the resources. Jobs in the areas of public safety and health care and pollution control should not be characterized as "dead end" jobs, certainly not by a President who promised to halt inflation without increasing unemployment.

I speak about inflation and jobs because I believe these matters are urgent. I believe they are urgent for an investment community which must rely in the end on the strength of the American economy and on the confidence of the American people.

There is much the Administration and the Congress can do. But there is also much you can do. We live in a society where many groups have power and you are one of them.

You have the power of enormous portfolios. You hold that power in trust for millions of men and women, all of whom must make their lives in this economy. Therefore, you must use that power in a responsible way. Your obligation to the individuals you represent goes beyond making a profit, important as that is. To them and to the society which entrusted you with the opportunity of power, your obligation is also to make your ideas known and your voices heard.

The tasks we face in this industry and in this nation are complex and difficult. But we must turn to them together, or they shall be left unfulfilled and we with them.

There is prosperity to be regained in this nation and confidence to be restored in its people.

To understand that goal is to share it in common.

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