

STATEMENT OF THE HONORABLE GEORGE P. SHULTZ  
SECRETARY OF THE TREASURY  
BEFORE PLATFORM COMMITTEE

AUGUST 15, 1972

"Another bumper year appears in prospect  
for the American economy in 1973."

That quotation is not a partisan self-serving statement issued by a candidate for high public office. It is the conclusion reached by eight notable economists in a special survey conducted by The New York Times which was reported in that newspaper on August 7. The professional forecasters in the survey were selected by the newspaper to "represent a variety of economic, analytic and political viewpoints". They included Democrats, Republicans, and Independents.

The statement refers to two "bumper" years. In other words, it was recognized by these economists that the economic policies of this Administration have established 1972 as a bumper year by the facts already recorded for this past

half year. And, in addition, they expect these policies to lead to continued economic well-being of the country in the second half of this year and in 1973.

The facts for 1972 and these expectations for 1973 are far different from the many calamities that are said to be afflicting the economy.

In brief, the economy is in the midst of strong real growth, record increases in jobholders, and rising real incomes and living standards of the average American. All this has been accomplished despite the inevitable maladjustments created by an economy experiencing a major wind-down of U.S. participation in the Vietnam war and a shift in Federal budgeting towards civilian priorities. In no such earlier wind-down in the twentieth century has the economy experienced so little dislocation and so much economic expansion.

The vigor of the economy is part of the success in the management of economic policy by the Administration since 1968. Earlier, policy was designed to diminish the importance of the excess demand of the late 1960s and subsequently to set the economy on to an expansion path without inflation in the New Economic Program of last August.

Those policies of last August, which brought the Nation to its present position of vigorous growth, set as objectives:

. To assure acceleration of economic growth and employment even though progress already was under way. The Revenue Act of 1971 and an expansive budget contributed towards this end.

. To restrain inflationary behavior and expectations by adding a system of wage-price controls to fundamental monetary and fiscal restraint. Once those inflationary expectations are dampened, the economy can expect reasonable price stability, without controls, as increased economic growth provides for advances in real wages and real profits.

. To achieve a realignment in the external value of the dollar which would reflect more realistically the relative position of international prices and costs.

While problems remain, the economic policies of the Administration generally have worked in attaining these objectives. The facts show this beyond dispute, partisan interests aside.

#### Overall Output and Demand

. Real GNP -- the most comprehensive measure of the Nation's output -- increased at an annual rate of 8.9% in the

second quarter of this year, the largest gain in 6-1/2 years. The growth rate in first-half 1972, at 7.7 percent, was higher than the annual gains for all but two years back to World War II.

. Industrial production in the second quarter rose at an annual rate of 9.4 percent, higher than any quarter, except four, in over a decade.

. Consumer spending rose \$16 billion in both the first and second quarters of 1972 -- more than in any other three-month period on record, except for two. In dollars of constant purchasing power, the first-half 1972 experience also represented consumer spending peaks, except for one quarter in 1971.

. Business spending on plant and equipment has been steadily advancing in response to the job development tax credit, the ADR system, and confidence in the economy's growth. By the second quarter of 1972, total business fixed investment had increased 14% more than a year earlier. Farmers, small business, and professional persons have shared in this expansion. The tax incentives have stimulated purchases of farm machinery, which are up one-fifth from a year ago, purchases of trucks, buses, and trailers are up by one-third, and automobile buying reached a record high.

. Private housing starts through first-half 1972 reached an annual rate of 2.4 million -- a new record by far, which compares with the earlier high of 1.9 million in 1950.

. The country has benefited greatly this year from a level of strike activity far below that of other recent years. In fact, in May, 1972, the number of workers involved in new strikes was the lowest for any May in thirty years.

This remarkable degree of industrial peace is a tribute to labor and management and shows what can be done by the system of free collective bargaining. There have been many noteworthy achievements, including the recent settlement of two most difficult issues affecting the railroads and a record of settlements without strikes of many tough cases in the construction industry. The record in construction, noted and notable on the side of the levels of wage settlements, is as much so on the side of industrial peace.

I know that, in an exacting scholarly sense, it will not be possible to show just what contribution relative industrial peace has made to the strength of the economy this year. It is my belief, however, that freedom from the disruptions of widespread strikes has contributed significantly to the expansion.

The Secretary of Labor and the Director of the Mediation Service and their co-workers have worked hard to encourage free collective bargaining. The basic achievement, however, is one of labor and management together. They deserve understanding and encouragement from Government. They also deserve recognition for their contribution to the economy. I salute them for the record of free collective bargaining in 1972.

The Impact of Tax Changes. The tax structure has undergone massive change in the last 2 1/2 years and a further change, in the form of revenue sharing, is currently under review in the Senate.

#### Employment and Unemployment

The rapid advance in demand and output has been accompanied by record increases in jobs during 1972. By the second quarter of this year, civilian employment had increased by 2.4 million from a year earlier -- a 3.0% rise. This rate was higher than the largest employment advances in the 1960s.

Despite record job gains, the unemployment rate in July 1972 was 5.5% -- down from last winter, but still too high. Though a record rate of jobs increase was under way, it was accompanied over the past year by very unusual growth in the

civilian labor force, in large part aggravated by the discharge of over 400,000 veterans from the armed forces. This was a special and transient swelling factor which worked against larger reductions in the unemployment rate. During the balance of 1972, however, further declines in the unemployment rate may be expected.

#### Inflation and Disinflation

A major victory of economic policy has been the curbing of inflation and the consequent improvement in the real standard of living of the average American family. Real wages and profits are rising because prices no longer are eroding the value of incomes earned from production and employment.

. During the ten months between last August and June, the consumer price index advanced at an annual rate of only 2.7%. That compares with rates of advance of 6.1% and 5.5% during 1969 and 1970 and 3.8% in the first eight months of 1971, respectively. While the advances in the first two years of this Administration were very large, they represented a legacy from former years of fiscal imprudence.

Indeed, the inflation had already reached a growth rate of 5.0% during the last three months

of 1968 -- and it rose further to 6.4% in the first three months of 1969 when this Administration entered office. In sum, the rate of inflation has been cut by more than half by the policies of the Nixon Administration.

. Real spendable weekly wages for the average production worker began to advance under the economic policies of this Administration -- following no improvement at all between 1965 and 1970. In fact, a slight decline occurred over this period. Since 1970, real wages have climbed at a rate of 4.6% a year -- but even that pace was exceeded over the last six months, when it rose to 5.1%.

. The rise in real spendable weekly wages has been accompanied by a rise in corporate profits per unit of output. Between 1965 and 1970, both of these had declined.

. The success of the U.S. anti-inflation program may be seen in better perspective on an international comparison basis. Over the last twelve months, the U.S. increase in consumer prices was only 2.9%. This compared with 6.3% in Great Britain, 5.7% in France, 5.2% in West Germany, 4.7% in Japan, and 4.4% in Italy.



Easing International Tensions

Last August 15 the United States embarked on a program to restore its external economic strength and to reform the international monetary system in the context of an open and liberal world trading order. The concrete accomplishments which have emerged are:

-- A major and unprecedented exchange rate realignment has been negotiated in the Smithsonian agreement, and legislative action to modify the dollar's par value has been completed.

-- Trade liberalization steps of tangible value have been concluded with the EC and Japan on certain short-term problems, achieving in the process greater recognition that the problems of the monetary system are paralleled by problems of the trading order.

-- Agreement was reached on wider bands of fluctuation of market exchange rates about the officially stated exchange rates -- a potentially important ingredient in any more permanent system as well as a means of facilitating the exchange rate realignment.

-- Understandings were reached not only to proceed with monetary reform discussions, but to undertake broad trade negotiations with the objective of supporting the goal of an open, liberally-oriented world economy.

Our economy is now growing vigorously. In contrast, many of our competitors are in a period of relatively slow expansion. As their economies pick up, so should foreign demand for our exports. Meanwhile, the improved relative price performance of the United States is helping to reinforce the effects of the recent exchange rate realignment. We are not satisfied with our performance -- but it is improving, and better than others.

Many factors suggest that the U.S. balance-of-payments position should improve in the period ahead. But, we cannot be sure the changes made so far provide an assured and lasting solution. To take advantage of the opportunity afforded, we must manage our economy properly, we must increase its vigor and competitiveness, and we must reduce barriers abroad to our exports. We must obtain structural changes in our international economic relations to better reflect the present balance of power and responsibility. We must see that American jobs are not subjected to unfair competition by firm enforcement of the anti-dumping and countervailing duty laws.

And, finally, we must move ahead rapidly with international monetary reform. The establishment of a "Committee of Twenty" under the general auspices of the IMF was a major accomplishment in which the United States played a major role.

#### The Need for Tax and Budget Discipline

The record is clear. In 1972 the economy is progressing at a very rapid rate with diminishing inflation and without war. The challenge of development of a peacetime economy, which would grow at a rate to be absorbing additions to the labor force and provide earnings which were not eaten up by inflation, has been met. Looking ahead to the balance of this year and into 1973, the consensus view by Democratic, Republican, and independent experts points to continued progress along these lines.

As the economy expands, consideration now must be given to a policy which would avoid overheating in the economy. Between 1969 and 1972, the unified Federal budget has maintained a rough full-employment balance, and this has made an important contribution towards diminishing inflationary pressures and the improvement in the price performance already registered. As we move into FY 1973 and beyond, it is essential to retain the budget discipline of not spending more than full-employment receipts.

Recent actions by the Congress make this task difficult. The President's proposal for a firm ceiling on spending, which would bind both the legislative and executive branches, should be enacted to preserve the gains already made against inflation. As the economy moves towards full employment of resources, closing the gap between "actual" and "potential" GNP, Federal budget restraint will be clearly required -- if we are to learn the lessons brought about by the budget excesses of 1966, 1967, and 1968.

As important successes are made on the issues of growth and unemployment, attention has shifted in some quarters to other issues, including redistribution of incomes and tax reform. The tax structure already has experienced important changes in the last 2-1/2 years, and a further change -- in the form of revenue sharing -- is now being legislated. These changes have made a contribution towards the expansion of the economy by stimulating investment through ADR, the investment tax credit, and other measures; while a reduced tax burden on individual incomes, especially to the relative advantage of low income earners, has contributed to the strong recent increases in personal consumption expenditures. In 1973 individuals will pay about \$22 billion less in Federal income taxes than they would have if the tax rates

and structure were the same as those in existence when President Nixon took office.

The highly regressive tax on youth derived from a combination of the draft with low pay in the Armed Forces has been replaced by strong movement toward a volunteer Armed Force.

Much has been accomplished by way of tax reform. The President has pledged to carry these efforts forward to simplify the tax system and make it more equitable and to find ways of reducing the burden of property taxes. But he is also dedicated to the most fundamental reform of all: the fight to keep taxes down. This is what the battle over spending is all about. The power to spend is the power to tax. Excessive spending should really be spelled, T-A-X-E-S. You can count on President Nixon to do everything possible to keep taxes down.

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The highly respected Dr. Arthur Schlesinger Jr.  
commented on the fact that the new tax  
has been replaced by a new system of taxation.

Armed Force.

Much has been accomplished in the past few years. The

President has pledged to carry them out with a sense of

urgency. The tax system and the way it is administered are

ways of reducing the burden of economic growth. You do

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