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ECONOMIC POLICY AND THE FUTURE OF THE U. S. ECONOMY

L. William Seidman MAY 12 1976

I am pleased for this opportunity to participate in the Financial Community Salute to Small Business, sponsored by the Small Business Administration.

Nowhere is America's can-do tradition of individual initiative, enterprise, and innovation better exemplified than in its millions of small businesses. It is easy to forget that today's large enterprises were yesterday's small grocers, builders, laboratories, and manufacturers. But most small businesses never become international, billion-dollar corporations. Rather, most small firms are likely to remain relatively small.

America's economic future will continue to depend upon the vitality of its nearly 10 million small businesses. They contribute 48 percent of our gross business product and employ over half the private sector labor force in this country.

This Administration recognizes the importance of small business. The most important action we can take is to return to a prosperous noninflationary economy. What is good for the economy generally is good for small business. A year ago, as our economy was rapidly sinking into the worst recession since the 1930's, the President promised to turn the economy in a new direction.

A little more than a year ago, every economic indicator was moving in the wrong direction. Unemployment and inflation were rising and our total production falling -- rapidly. Some saw no bottom to the slide.

Today, every basic economic indicator is headed in the right direction -- total production is steadily rising and inflation and unemployment are receding.

The rate of inflation has declined by more than half from the double-digit levels of 1974; wholesale prices have been generally steady over the past half year, while consumer prices showed a modest increase of only 2/10 of 1 percent, seasonally adjusted, in March, the latest month for which figures are available.

The unemployment rate has declined from almost 9 percent last May to the current level of 7.5 percent. Total employment has risen by over 3.3 million since its recession low. Over 1 million more people are currently employed than were employed at the prerecession peak. This leaves us with the important task of creating jobs for the large number of new entrants into the labor force at the same time that we continue to reduce the unemployment rate.

Industrial production and retail sales figures also suggest that a healthy recovery is underway. Total industrial production was about 10 percent in real terms over the last year, and total retail sales for March were about 11 percent higher than one year ago in real terms.

Sustained consumer spending is vital to an economic recovery, and consumers are responding positively to the improving economic situation. Real spendable earnings are increasing. Our statistics show that the average worker had 4.3 percent more purchasing power at the end of March 1976 than one year before. The consumer now appears more confident. A recent survey released by the University of Michigan's Survey Research Center states that confidence among consumers in all income groups improved sharply over the past 3 months. The survey measures consumers' expectations and their willingness to buy, and the results of this recent survey state that consumers "have almost entirely recovered their prerecession levels" of willingness to buy. The economists making the study also said that their "latest survey findings suggest that consumer confidence is much less vulnerable to bad news than was the case last fall."

In addition to suggestion "that a substantial increase in consumer spending is clearly in prospect," the survey also found "especially strong gains" in attitudes toward buying houses and cars. In short, consumers are ready to buy big ticket items again.

The consumer confidence findings seem to be confirmed by the economic statistics for housing and autos. Housing starts were up by 46 percent in March over the previous March, with current starts about 1.5 million annually. In March, automobile production was up 48 percent over a year ago, and there is good ground for expecting sales and production to remain high for the rest of this year and in 1977.

Two areas of the economy, however, are lagging the recovery -- capital spending and construction in the nonresidential and multi-family sectors. We look for a significant pickup in these vital sectors later this year. We will watch business-fixed investment and those segments of the construction industry closely for the final confirming evidence of a solid recovery.

In short, our economic future looks good. We are in the midst of a healthy recovery -- a recovery that is both strong and durable.

Not least, it is a recovery that does not contain the seeds of its own destruction. It is based on the policies adopted by the President over a year ago.

These policies were developed to create the conditions by which the private sector -- businesses small and large -- could spark the recovery.

Our job was not to curtail freedom by attempting to "order out" government-controlled economic activity but to create the conditions under which business and consumers would respond to approprivate government policy.

These policies have guided and will continue to guide our economic policy making:

1. Provide a steady-as-you-go program designed to foster a sustainable economic recovery without reigniting inflation. Don't try to do everything at once. Avoid roller coaster, stop-go economic measures. Rebuild a climate of confidence in future economic stability to assure continued consumer spending and increased business outlays for job-creating investments in plant and equipment.

2. During the recovery, alleviate economic hardship for the unemployed through temporary extensions of unemployment insurance

coverage to 12 million additional workers and temporarily lengthening benefits from 39 to 65 weeks. Provide increased funds for a selected number of proven Federal programs, including the Comprehensive Employment Training Act (CETA) and summer youth employment.

3. Reduce taxes on businesses and individuals to stimulate economic activity in the private sector to encourage increased investment in America's economic future.

4. Reduce the increase in government spending so that a balanced budget can be achieved in 3 years. Provide more funds in the capital market for private investment by eliminating the drain on the pool of savings from government deficits.

5. Correct the government's "regulatory drag" on our economy. Eliminate costly, burdensome red tape and obsolete regulation which results in higher prices for consumers and fewer jobs and less productivity for all Americans.

6. Promote a healthy international economic environment. Pursue more competition in world trade but protect American jobs against unfair foreign trade practices. Emphasize the superiority of free market forces over cartels and political arrangements which restrain trade and cripple economic development in both developing and industrialized nations.

7. Regain control over the most basic of all natural resources -- energy -- which is essential not only to the security of our nation but also to our standard of living. Create new sources of energy in a world which has only a limited period ahead to rely on oil and gas. Seek energy independence at home and a surplus for international growth and development.

These guidelines have been the basis of our returning to the road of a prosperous economy. We have not reached our goal but we are well on the way.

Yet, there are those in recent days who have called for the Federal government to assume a different role in the economy. They urge measures which they claim will immediately eliminate our problems. They propose much greater governmental direction of the working of our economy.

Their motives are good, but they do not look far or long. They do not recognize the full consequences of pursuing such policies. They do not acknowledge that government make-work programs are inflationary and seldom terminate. They do not recognize that our great challenge is to bring economic prosperity without so enhancing the power of government that we lose our freedom of choice. They do not see that the vitality of the American economy comes from private initiative, not from the public trough. They do not sense the American people's attachment to liberty. We believe Americans are willing to forego the security of the planned economy for the privilege of freedom and opportunity even when the going gets tough. In the words of my old football coach, "When the going gets tough, the tough get going." We are betting our political future on it.

In the spirit of our bicentennial, as a people we are reexamining the foundations of our country's accomplishments.

The results of this review, I am convinced, will be a recognition that the President's economic policies in this bicentennial year reaffirm the basic principles on which our country was founded.

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