

Failure to handle inflation threatening U.S. industry

By JACKIE KLEIN

"If you are not confused in this economy, you are not very intelligent."

That was Sam MacArthur, chairman and chief executive officer of Federal Mogul Corp., talking to the Southfield Kiwanis Club recently on inflation.

Actually, MacArthur was quoting McChesney Martin, chairman of the Federal Reserve Board, but the Federal Mogul executive expresses genuine concern for the economic future.

"Industry must understand the present and future effects of inflation or risk going out of business," MacArthur warned.

"Failure to anticipate increasing costs realistically, along with inaccurate accounting practices, have almost stopped reinvestment of corporate earnings."

THE RESULT, MacArthur contended, is stunted growth of the nation's productive capacity.

Inflation, he said, robs corporate treasuries. More than 80 percent of manufacturing corporations don't have inventories on a last-in-first-out basis.

Reported earnings, MacArthur said, are too high by an amount equal to the cost increase of goods that must be replaced. In 1973, he noted, excess earnings were \$17 billion and the estimated 1974 figure is \$25 billion.

"Effects of the topsy-turvy econ-



SAM MACARTHUR

omy are many," he said. "Money has grown at a pace far slower than the rate of inflation and wholesale and consumer price rises."

"The Federal Reserve is permitting only moderate growth of money and credit, more than eaten up by inflation. Corporate commercial paper borrowers may not be able to meet maturities."

Consolidated Edison's de facto bankruptcy should be looked at as the tip of the iceberg, MacArthur claimed.

USING AS his source J. S. Dusenberry, Harvard professor of money and banking, MacArthur said the United States has a chronic bias toward inflation.

There is a constant tendency for prices to rise," MacArthur said. "It is much easier to adjust prices upward than downward."

"Industries with a moderate degree of market power fear a downward price will not be increased by competitors at a later date. Wages rise faster than growth in productivity."

"We have a full employment policy with severe imbalances in our labor force. A substantial number of persons are only qualified for a limited range of poorly paid jobs."

"Government in employment downturn reduces taxes and increases expenditures over revenues to stimulate employment, increase consumer confidence and buying."

The dollar lost more than 20 percent in value compared to other major currencies in the United States in 1971 and 1973, MacArthur said.

"TOTAL FINANCIAL assets declined by more than \$200 billion in 1973 to a level below that of 1968," he said. "However, since 1968, consumers invested almost \$5.5 billion in financial assets."

"Consumers' ability to borrow as an inflation hedge is limited by rising prices of essential goods which reduce the ability to repay the record level of loans."

"Attempts to rebuild inflation-eroded wealth positions will limit the recovery of consumer spending in 1974 and perhaps in 1975."

It is frightening from the public policy standpoint," MacArthur said, that the reinvestment of corporate earnings, realistically measured, has almost ceased. The effect of inflation, if not realistically handled, is the liquidation of business, he added.

"IN 1973, the rate of inflation was nearly nine percent," MacArthur said. "In about eight years, at

that rate on a compounding basis, values will be one-half of what they are today."

Retail prices, he said, are rising well about a 10 percent yearly rate. Little new capacity has been added since the economy hit its ceiling in 1973.

"New forces at work are decontrolling of prices and wages and the impact of higher oil prices," he said. "The consumer hasn't been as pessimistic in the last 25 years. He's been robbed of his purchasing power."

"The economy is in a bind, the recession though hasn't been reached and the consumer who started the recession will remain a drag on the economy."

6-year plan for roads

The City of Southfield is proposing a six-year program to improve 12.7 miles of county roads in the community.

Recommendations to the Oakland County Road Commission include:

• 1974—Twelve Mile Road from Lahser to Southfield Road—reconstruct to five lanes.

• 1975—Ten Mile Road from Evergreen to Telegraph Road—reconstruct to five lanes including the bridge over I-696.

• 1977—Lahser Road-Ten Mile to Twelve and one-half Mile

Roads—fill in gaps to provide five lanes.

• 1978—Lahser Road from Eight Mile to Ten Mile Road—reconstruct to five lanes.

• 1979—Twelve Mile Road-Telegraph to Northwestern Highway—provide five lanes. Construct fifth lane on Twelve Mile Road from Greenfield to Southfield Roads.

Growth demands massive capital

By JACKIE KLEIN

"A slowdown with potential" is the 1974 economic forecast of Manufacturers National Bank.

"Anticipation of an economic problem requiring sacrifice often can be worse on the psyche than the problem turns out to be," according to the bank report.

"It is true that for our economy to return to the real growth rates of previous years, it will require massive capital investment," the report continues.

"Investments must be dedicated to improving technology via outlays on research and development."

Also required are expanding capacity by programs of plant and equipment spending and discovery and extraction of new and synthetic sources of basic raw materials.

Consumers and businesses will have to save more or government will be forced to tax at higher rates, according to the report. Despite increased savings, a highly optimistic forecast of real growth in the economy must await solution of the long-run supply problems implying heavy investment of capital.

A SUBSTANTIAL economic slowdown was predicted for 1974 even before the realization of fuel shortages, according to the report.

"The six percent real growth in 1973 can't be matched because at least two major industries, residential housing and consumer purchase of durable goods, are weakening in 1974," the report stated.

"Offsetting these declines, it is expected that business plant and new rate of at least 1.7 million, an increase of at least 10 percent in business capital spending, and a trade surplus of more than \$3 billion.

The forecast calls for a gross national product of \$1.3 billion including a decline of at least 10 percent in domestic auto sales. Also

included is a predicted decline in housing starts to an average annual rate of 1.7 million, an increase of at least 10 percent in business capital spending, and a trade surplus of more than \$3 billion.

A high rate of inflation, coupled with less internal cash flow for business, means that those firms attempting to raise money in the capital markets will find money expensive, according to the report.

"ON THE other hand, it also appears that government spending again might swing in the direction

of stimulation and monetary policy might ease considerably," the report states.

"This could prove unfortunate because it would only serve to raise inflationary demand and accentuate the difficulties in the supply half of the equation."

"However, if government controls don't impede business plans for investment and expansion, and if 'project independence' is undertaken in a climate favorable to business, there is an excellent longer run growth prospect for the economy."

Mayor names new planner

SOUTHFIELD—David Koldziej has been appointed by Mayor Donald Fracassi to a three-year term on the planning commission. Koldziej, 29, 45 Westbrook Parkway, was chairman of a citizens committee to support the millage proposal for public safety expansion which passed in April.

The 37-year-old mechanical engineer holds a B.S. and Master's degree from Wayne State University. He is an eight-year resident of Southfield.

Koldziej cites his engineering education and experience in industrial planning as qualifications to serve on the seven-member commission.

"As a resident of Southfield, I believe that constructive involvement of citizens in city government is a major asset to growth and development," he said.

Student elected to honor society
Southfield—Michael Dworkin, 27340 Harvard, Southfield, was elected to Wayne State University's Mackenzie Honor Society. He will hold the secretary treasurer post.

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