Money Policy Should Avoid Direct Controls-McCracken

NEW ORLEANS—If the United States does not take immediate action to reduce deficit spending sharply, there is high probability that the present international monetary system is in its latter days, University of Michigan economist Paul W. McCracken declared.

Moreover, he said at the annual international conference of the National Association of Accountants, the Federal Reserve must adhere to the present course of slow monetary expansion without regard to the interest rate levels which may be produced.

"Without these actions," the U-M economist emphasized, "we cannot be sure of a cooled-down U.S. economy, without which a strong dollar and international economic equilibrium are impossible."

He suggested that the cost of being "the world's policeman" may be too high for the United States to maintain.

Dr. McCracken, the Edmund Ezra Day university professor of business administration and former member of President Eisenhower's Council of Economic Advisors, said the nation's economic and monetary policy should be designed to "enable us to begin discarding our considerable clutter of direct controls over such things as investment abroad or tourist expenditures or trade generally." Our actions, he added, should "enable us to move toward a more liberal international trading and financial system."

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IT IS CLEAR, McCracken said, that time has about run out on us for constructive action. "We now have a wired-up, two-priced gold market of highly uncertain duration. An uneasy lack of confidence hangs like Damocles' sword over the dollar."

"There is great danger that we may set the course of world economic policy in the wrong direction," he continued. "Two possibilities are as ominous as they are tempting. First, the world may undergo a spasm of deflation as each major nation tries to strengthen its own payments position by deflating."

The trouble here, the economist explained, is that reduced imports for one nation mean reduced exports for another nation, which may then deflate to curtail its imports, which are the first nation's exports, and so on. He compared this to the parallel strategy of the 1930's "through which we crushed the whole banking system by trying to deflate to the point where only strong banks remained."

The second danger cited is that we will try to preserve the nominal characteristics of the present system by temporary direct controls.

We now have an elaborate set of controls over U.S. investments abroad," McCracken noted. "While nominally we stand ready to exchange gold for dollars presented to us by foreign official holders, the U.S. has exerted substantial pressure on these central banks and treasuries not to exercise that option.

"This year . . . having proposed direct and discriminatory controls over U.S. tourist expenditures abroad, the Administration has had difficulty explaining why there should not also be direct controls over imports of steel."

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AN INCREASE in the price of gold, while it "would not resolve our present problem," may be inevitable, McCracken said.

He suggested new machinery must be developed "to give new importance and visibility" to the synchronization of economic policies among nations.

"The time has come for Uncle Sam to give up the role of Uncle Soft and get hard-nosed," McCracken declared. "It is doubtful if the United States can maintain a free and open system of fixed exchange rates and convertibility of the dollar and also perform as the world's policeman. Some choices must be made."

"The postwar arrangements by which we established military facilities in Europe and elsewhere, without bothering to include in the agreements that host nations must pay foreign exchange costs, has to be high on history's list of short-sighted actions," he continued.

"Host nations shielded by our military facilities must choose between having our troops brought home, or having them remain with foreign exchange costs fully and directly carried by these nations.

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"MOREOVER, U.S. output is now shut out of nations enjoying full access to the U.S. markets. While foreign cars readily enter the U.S., special tax and tariff barriers virtually exclude U.S. cars from their markets. What is sauce for the goose must be sauce for the gander."

We should move boldly and directly toward a more liberal world economic policy - toward a free and open economic system — McCracken said. Flexible exchange rates and de-escalation of impediments to trade and invest "would minimize the danger of common markets that become larger agglomerations for waging economic and financial war among each other."

Clearly the world economy is now at a fork in the road, the economist concluded. "The Free World is on the threshold of what should be a major expansion of trade. The more liberal and open economic policies now emerging in Eastern Europe offer hope of growing interdependence between the two worlds. Literally before many months have passed, history will record the measure of our ability to grasp this promise."

Artificial Light

In growing plants under artificial light, you will have a problem of uniformly unless the plants are of the same variety.

CONTRACT FOR DIESEL — Detroit Diesel Engine Division of General Motors has received a $5.6 million contract to produce 15,365 engines over a three-year period for the Department of the Army. The plant, located in Redford, will produce lightweight aluminum 101-horsepower models for the "Gama Goat," a 1¼-ton carrier of men and equipment. Production will start in 1969, according to General Manager C. W. Truxwell.

Housing Shortage Could Be Critical

The United States has entered another period of housing shortage which could become "critical" if mortgage money gets much tighter, says Norman Strunk, executive vice president of the United States Savings and Loan League.

"The home building industry never quite recovered from the tight money period in 1966," Strunk said. "In 1967, there was some recovery, but the supply never quite caught up with the demand. Now with money tightening up again in many parts of the country, the statistics available indicate a new housing shortage in many sections of the country."

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THE LEAGUE executive revealed the housing shortage when he announced the results of a statistical survey which the League has been making over a three-year period. The survey showed:

1. The pivotal factor which determines the demand for all kinds of housing (single family dwellings, apartments, high rises, vacation homes, etc.) is the increase in household formations.

2. Employing the most conservative projections as to housing demand, the League survey indicates that during 1966 and 1967 there was a demand for 2,920,000 units of various types.

3. During those two years non-farm housing starts numbered 2,471,100 -- almost a full half million short of the estimated demand.

Strunk said that as housing production has fallen behind housing demand, the surplus of about 500,000 units available at year-end 1965 has been virtually exhausted in nearly all areas.

"If we couple the most generous estimate of excess inventory at year-end 1965 with the most conservative figures on household formations for the past two years, it would appear to suggest that the housing market was in balance at the end of 1967," he added.

However, Strunk explained, there is evidence of a "tight" rather than a "balanced" housing market. He said this evidence included Federal Home Loan Bank Board figures on foreclosures, inventory of unsold homes and vacancy rates.

It was during 1967 that the distinct turnabout in foreclosures took place. Foreclosures by insured savings and loan associations dropped 15 per cent, falling well below the level of three years ago. In fact, in the final quarter of 1967, the rate of foreclosures per 1,000 mortgage loans was the lowest for any period since the records were started six years ago.

"Market demand was obviously strong enough to encourage sales of the homes by delinquent borrowers and there was less need for legal foreclosure action," Strunk said.

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THE LEAGUE chief executive officer said that the end of last year showed the number of unsold homes dropped to 184,000, according to the Department of Housing and Urban Development. More importantly, the time required to sell a home took a drastic drop. For the last quarter of 1967 the time between the start and the sale was a short 2.8 months, and the lag between completion and sale was an even shorter 1.7 months.

Another strong indication of the housing shortage is the fact that after remaining virtually unchanged for five years, homes "vacant" and "available" for rent moved down from 2.7 per cent in 1965 to 2.2 per cent in 1967.

"These slight percentage changes seem to have little meaning," Strunk stated, "but a good sign of their significance appears in the fact that the number of units moved off the vacancy list during the last two years topped the number of new units constructed in any major city during the same period."

The home-financing and housing expert said that if the tax-increase and spending-reduction legislation is passed in the immediate future, money probably will not tighten up to the point it reached in 1966.

"On the other hand," he said, "if this fiscal action is not taken soon, then we are in for another period of very tight money. If this latter course is pursued, we will not have a housing shortage; we may well have a housing crisis."

Make Labor Relations Appointment

The promotions of George B. Morris, Jr., to director of Labor Relations of General Motors and Frederick H. Schwarze to assistant director of Labor Relations were announced by Louis G. Seaton, GM vice president in charge of the Personnel Staff.

Morris, who has been manager of the Labor Relations Staff since February, 1966, succeeds Earl R. Bramblett who was elected a vice president of General Motors and named executive assistant to Seaton.

Schwarze has been responsible for the General Motors arbitration procedures and contract administration and negotiation between GM and the International Union of Electrical Workers.

Pest Problems Are Increasing

Conservation Department foresters report pest insects are becoming numerous.

For control of the European Pine Sawfly, they recommend spraying with Sevin--two tablespoons of 50 per cent wettable powder per gallon of water--or Methoxychlor--two tablespoons of 50-per cent powder per gallon--or 25-per cent wettable powder or two teaspoons of 25-per cent wettable powder or two teaspoons of 57-per cent emulsion per gallon of water.

For Cankerworm Caterpillars--commonly found on elm, oak and other hardwood trees--they recommend spraying with Sevin or Methoxychlor at the same rate as for Sawflies.

For Birch Leaf Miner, which produces browning of leaves as adults appear, Sevin or Malathion applied at the same rates are effective.