

Inflation's cause is seen as over use of resources

WASHINGTON D C—Explicit over-commitment of our economic resources is the basic reason for inflation, Prof. Paul W. McCracken of the University of Michigan told the American Bankers Association Symposium recently.

The former chairman of President Nixon's Council of Economic Advisers said "our problem, in short, is not the technocracy of managing economic policy although the instruments can always stand improving. "Our problem is that in quite explicit ways we have over-extended ourselves in obligating our economic resources. If the managers of economic policy are to pursue a more orderly course, these imbalances between explicit and programmed claims on resources and what we can reasonably expect the economy to deliver must be redressed."

ON THE restoration of this balance, the U-M economist warned, "may well depend not only a better price level performance, but our free society itself."

McCracken emphasized that "heavy demands on the economy, many of them requiring financing, have been so inexorable and insistent that a Federal Reserve policy adamantly limiting the rate of monetary and credit expansion to, say a five per cent pace (instead of a rate in excess of seven per cent), would have risked a real financial crisis."

"The key question, therefore, now becomes evident. Why do we have demands in the economy so omnivorous that explicit claims on output seem so persistently and inexorably to outrun our productive capabilities?"

"While such things as the oil embargo, poor crops and artificial shortages from price controls have played a short-term role, a more basic problem has been building for some time."

"The fundamental problem," McCracken continued, "is that we have been making explicit commitments for the future use of economic resources with inadequate or no cost-benefit analysis and with inadequate or not adding-up to see how it matches against our productive capacity."

"And these explicit, large, and growing commitments involve financing requirements that have our credit markets floundering."

SUGGESTING the Federal budget is "out of control", the U-M econom-

ist noted that during the last two decades we have had only four fiscal years in the black.

From 1958 to first quarter 1974, he said, the rise in nondefense government expenditures (federal, state, local) was equal to 43 per cent of the rise in national income.

"The political process has tended to vote programs with large and rising future outlays with the reassuring thought that 'now' is no time to raise tax rates."

"Through the legislative process, large commitments of future economic resources are made that often do not show up in the budget as such."



WILLIAM E. KREGAR, has been reappointed to a two-year term on the public transportation council, a nine-member citizens advisory council assisting the State Highway Commission. He was reappointed by Senate Democratic Floor Leader Jerome T. Hart. Kregar is chairman of the Huron-Clinton Metropolitan Authority where he represents Wayne County. He also is a board member of the Downriver Federal Savings and Loan Association. A former mayor of Wyandotte, Kregar is vice president of the Great Lakes Coca-Cola Bottling Company.

He cited the Housing and Urban Development Act of 1968 which declared a national policy of building 26 million dwelling units in the ensuing decade, the \$500 per car mandated safety and emissions equipment by the next model year, and high outlays for environmental and safety stands in industry.

McCracken suggests that a program for regaining a reasonably stable price level must move in three directions, seeking: a more realistic rate of monetary and credit expansion and stronger fiscal policy; higher operating rates for the economy; and, programs that deal with the inequities of inflation.

"Because the basic relationship between money supply and gross national product (GNP) is fairly stable, and our capacity to increase output is growing at not over four per cent, this monetary requirement for price stability can be put in fairly specific terms."

"Our objective should be to work the rate of expansion in the money supply down to the four-five per cent zone as rapidly as it is prudent to do so."

"A steadier and stronger, fiscal and expenditure policy is obviously essential. The normal target for the budget should be a surplus equal to about three per cent of federal outlays."

THE PUBLIC sector, he added, "has an obligation to be candid with citizens about the full economic costs of its program decisions, whether they are in the budget or as private outlays imposed on people and to be paid directly by them. This is essential not only to good management of economic policy, but for that public confidence without which democracy itself is in peril."

"Second, we must explore ways to achieve higher operating rates for the economy, and lower levels of unemployment, without unacceptably severe upward pressures on the price-cost level."

He suggested evaluation of "a vast array of public projects and arrangements that impede the mobility of resources and impart, therefore, an inflationary bias to the economy."

"People have far more understanding about these matters and far more discipline and courage about facing these pains than the emissaries they sent to Washington fear, if people have the feeling that government is leveling with them"

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