8-19-1975

FACING THE ECONOMIC ISSUE

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Perhaps the most significant item on America's unfinished agenda is the status of our economy. We are all aware of serious difficulties in our economic structure today. We could scarcely fail to notice, what with recent devaluations of the dollar, double-digit inflation, serious unemployment, recession and staggering Federal budget deficits.

Obviously, we have not yet achieved the ideal economic system. Even worse, we seem to have major disagreement about where we are and the direction in which we want to travel.

A sound economic sense of direction is fundamental to the nation - since it plays a key role in establishing our goals, determining our standard of living and even in defining the role of the individual in our society.

In the past, the United States has been oriented to a free market economy. Free market capitalism has led to the development of a decentralized economy in which millions of farmers and businessmen make collective decisions about production, in response to the market demands of millions of consumers. By its very nature, decentralized decision-making has impacted the American value system -- reflecting itself in the high value that we place on individual initiative, self-reliance, and self-help.

Speech by Assistant Secretary of Agriculture Clayton K. Yeutter at the 1975 Symposium on America-1976: The Unfinished Agenda in Omaha, Nebraska, April 19, 1975.

In addition, the efficiency and flexibility of the free market are virtues almost universally recognized by economists. To economists, the principal advantage of a market economy is cost-effectiveness.

The free market puts much greater pressure on individuals and business to be cost-effective. It also exerts pressure to be responsive to consumer desires. Individuals and businesses that meet consumer desires in a cost-effective fashion are rewarded with profits. It is the carrot system, rather than the stick.

In contrast, the Soviet Union represents the largest and oldest attempt at an administered economy. The USSR suffers from serious planning errors, which by the very nature of a centrally-planned economy are generally made on a massive scale. Individuals below the planning level are not allowed to use their experience and intelligence to make the system work better. There is no economic signal between consumers and manufacturers. As a result, Soviet econometricians estimate they are losing as much as a third of their potential productivity through inefficient administration and planning. These losses are reflected in the relatively low Soviet standard of living. And the problem is getting much more serious as the USSR's economy becomes more complex. It is no longer a matter of simply producing millions of pairs of shoes; consumers now want the shoes to fit, and to be available in a range of colors and styles. Complexity puts serious strains on the administered economy.

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The efficiency of the free market has been a really vital factor in achieving the relative affluence that nearly all Americans enjoy today. I have worked in South America, where there was a higher degree of government intervention in the economy. That experience biased me in favor of free enterprise. It produces a higher standard of living for all. Even the poor in our nation live relatively well, by world standards.

However, with the high general level of affluence we have achieved, there is criticism of our income distribution. The question seems to be how much incentive we need to have an effectively-functioning market economy.

Certainly we are open to criticism where groups of people have been kept out of the mainstream of the economy through prejudice or for other reasons. It was almost characteristic that our later immigrant groups had to overcome barriers to climb the economic ladder. Women have for centuries been relegated to a secondary role in the economy, at least in part because of biology and because of a traditional division of labor in the pretechnological family. The woman's role is changing now, as contraceptive technology gives families more control over family size and timing, and as household equipment technology frees the wife's time.

Rural people, too, suffered from being out of the economic mainstream for many years. They were isolated by distance and time from off-farm jobs, and their incomes were held down by a technological revolution that was cutting back our need for farm labor.

Blacks in our society suffered for a very long period with a double problem -- they were originally an immigrant group and they were located primarily in rural areas

There is no excuse for blocking groups out of the economy, denying them the opportunity to contribute and earn rewards. Part of America's unfinished agenda must be to open economic participation even further, and there is some evidence that women, blacks and other groups are now beginning to make more rapid progress. But equal opportunity can be provided in either a market economy or an administered economy. We are still left to decide what economic system to pursue.

The need for us to decide has been heightened by one of the obvious developments of recent years. John Maynard Keyes advanced the idea that government could ease the problems caused by business instability if it spent and taxed counter-cyclically. In other words, it would be beneficial for the government to run a deficit in recession periods to stimulate recovery -- and then cool off boom times by piling up a government financial surplus.

Unfortunately, the nations of the world have adopted only half the Keynesian idea. They have eagerly seized on the concept of running government deficits during recessions -- but more often than not have continued to run government deficits during boom periods too. The United States has written its Federal budget totals in red ink for 14 out of the past 15 years. And we seem certain to run record deficits during at least the next two fiscal years.

That is not the Keynesian model. It is simply a recipe for inflation - and we have achieved the inflation. Ironically, we seem to have what I would call an "observed preference" for inflation. Dr. Don Paarlberg calls it a love-hate relationship. We do not like inflation, but we have a fondness for public spending programs, government benefits, low unemployment figures, low tax rates, cheap money and all the other things that contribute to inflation. Given the choice between inflation and fiscal discipline, we have consistently opted for inflation. This has not passed unnoticed among our candidates for public office.

Ironically, the people most hurt by inflation -- the elderly and the poor -- are the elements of society who we profess to be trying to help through our public policies. Evidence is accumulating that the poor would be helped more in the long run by a thriving economy than by big government transfer payments. The key reason is that the transfer payments are siphoning large amounts of capital out of the productive sector of the economy, leaving it unable to grow rapidly enough to provide more jobs and a higher general standard of living.

It takes more than $30,000 worth of investment to create the average job in the United States today -- and the evidence is growing daily that we have a shortage of capital to create the jobs we need. High unemployment levels are only one aspect of this. We also have a large number of young people who are about to come onto the job market, for whom we will need to create productive work. And the rate of investment in the United States today is among the lowest of all the industrialized nations. That means there is little money with which to build new plants, buy up-to-date equipment, and develop new processes.

Some people cavalierly dismiss this capital investment problem, calling it the "trickle-down theory". That is a very dangerous misconception.

Treasury Department economists recently compared the rate of investment in the United States with investment in six other industrialized nations -- Japan, Great Britain, West Germany, France, Italy and Canada. The U.S. had the lowest investment ratio of the seven, and our economic growth rate ranked sixth, behind only Great Britain. Eliminating residential construction, Japan had an investment ratio of 29 percent per year between 1960 and 1973. During the period, Japanese output of goods and services increased by 10.8 percent per year. West Germany's ratio was second at 20 percent, with a growth rate of 5.5 percent. The U.S. investment ratio was far down the list at 13.6 percent, and our growth rate was 4.1 percent.

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The lag in U.S. investment has, according to these economists, effectively held back advances in the average consumer's standard of living; it has created shortages in basic-materials industries during periods of economic expansion, and it has added substantially to inflationary pressures. Worst of all, the lag in investment has limited job opportunities, with the poor and minorities suffering most when jobs are scarce.

The productivity of the United States is still the highest in the world -- but only because of what we have done in the past, not because of what we have done lately. Japan's productivity per employed civilian was 18 percent as large as ours in 1950. By 1973, it had reached 65 percent of our level. France and West Germany have risen from 60 percent in 1960 to 80 percent in 1973.

The only way this country can improve its real standard of living is for us to increase our per capita output of goods and services. We can get some gain by making better use of the parts of our work force that have not been used to their fullest capacity in the past -- such as women and minorities. Certainly we must do this, for our own good and for theirs. But the main source of increased productivity must come from increased investment. We have not achieved our current affluence through hard work alone; no one works harder than the peasant farmers I saw in Colombia. Our affluence has come from multiplying our physical labor through technology . . . and that takes capital.

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There is serious question about where our next investment dollars are coming from. In fiscal 1976, the government is likely to drain some $80 billion in Federal deficits out of the money market. That won't leave much for private industry, for the new productivity, the new jobs and the higher standards of living for tomorrow.

The world's reaction to our fiscal policies can be seen in the world monetary markets, where the dollar has weakened again. This, in turn, increases the cost of all our imports, and adds more inflationary pressure.

Indexing is no solution to the inflation problem. For one thing, you can never make indexing complete and equitable. And indexing further weakens our resistance to inflationary policies.

The move toward government administration of our economy is producing other side effects, as well as monetary troubles.

The industries in which the government has intervened most directly are the ones that have tended to make the least progress and have the largest problems. Much of our rail industry is decrepit and nearly bankrupt after 80 years of regulation by the Interstate Commerce Commission. Our airline industry does not offer low-cost air coach service for the ordinary citizen -- primarily because the government sets air fares and prevents price competition. The government also sets the price on natural gas -- and they have set it so low that no one drills for natural gas; the government has helped create an artificial shortage.

In agriculture, we spent 40 years trying to manage millions of American farms from Washington. Since we stopped, farmers incomes have improved, we are using our farming resources more efficiently, and the contribution of agriculture to the economy has increased dramatically. Farm exports, which ranged from $5 to $6 billion in the 1960's, have zoomed to more than $20 billion a year, and we are providing more jobs in farming and agribusiness.

The effect of an administered economy is showing up psychologically too, in this country. Our pride and our self-reliance seem to be suffering. The new slogan reads, "Let the government take care of it; it's their responsibility." That attitude ignores the most fundamental principle of the American Revolution - that the people are the government. The government has no powers, except those that derive from the people. The government has no money, except what it takes from us in taxes. And it has no direction, except what comes from the voters. We are responsible for our government.

It is our responsibility that government continues to spend money that it doesn't have. And it is our responsibility that our city streets are dirtier than in the worst slums of Colombia, where there are no welfare payments, no unemployment compensation, and no food stamps.

The economic issue facing the United States after 200 years is the loss of its economic discipline. Rome suffered that same fate centuries ago, when land taxes rose so high that her farmers were driven off the land and into the cities. After that, the taxes from the vast Roman Empire went to support a Roman welfare state.

In the third century A.D., the Emperors Severus and Caracalla distributed the entire wealth of the newly-conquered Parthian Empire (now Iran and Iraq) in higher pay for the army and free handouts to the Roman mobs. It was a welfare spree that no country has been able to afford since.

The United States does not have an empire to tax. We must depend on our own resources and our own productivity. We must regain control of our own runaway economy. The question is how.

Congress has adopted a new budget procedure this year -- and for the first time is adding all of its budget components together and comparing them with expected revenues. The system should be an improvement -- but it may be significant that it took decades to get this fundamental step adopted. The rest of the world will also impose some discipline whether we like it or not, through its valuation of the dollar in world trading.

However, the fundamental force for discipline must be the attitude of the American people. We must resume the responsibility for ourselves, for our government and for our value system. We must regain our self-discipline or stand and watch while our national vitality and our national promise are drained away through the gaps in our economic fabric.

That was not the American dream of 1776. Let us make sure that it does not represent reality in 1976.

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