Simon Says — A Mandate For Growth

Following are excerpts from several speeches presented to the conference on "Capital Formation for Exports" held in Chicago Nov. 29:

"The Politics Of Capital Formation"

by William Simon

All of us here know that capital formation is more than just bricks and mortar — it means more jobs, higher productivity, higher wages, less inflation, and all the other ingredients of a decent and growing standard of living. For decades, America's rising standard of living was the marvel of the world — and that was because our father's generation and generations before were always willing to save and invest in the future....That tradition lives on in some parts of our country today, but clearly when you examine the nation as a whole, we see less of that sort of commitment than in many other nations.

Just compare, for a moment, the amount of money invested in new plants and equipment here in the United States with other countries. From 1960 through 1975, Japan's investments in new plants and equipment averaged 28.8 percent a year of the country's gross national product. In West Germany, the figure was 21.8 percent; in France, 19.5; in Sweden, 19.2 percent. But in the United States? We were dead last among all the major industrial democracies, coming in behind even Great Britain with a figure of 14.8 percent a year of our GNP. Granted, we do have a larger economic base than those other countries, but if we're wondering why we are facing a decline in our ability to compete abroad I would suggest that one answer — a big answer — lies in the relative degree of modernization in our plants and equipment versus theirs.

To take another measure of our commitment to the future, look at our investment in research and development. Before 1967, private sector investments in research and development were increasing in size by 8 to 9 percent a year. But from 1967 to 1976, annual increases in those R and D investments averaged only 2 percent a year. So it's quite obvious that we can only reap what we sow. And in this case, the harvest is becoming increasingly bitter. One clear example is in productivity...From 1969 to 1975, two thirds of America's industries had lower rates of productivity gains than during any previous periods stretching all the way back to 1950. I believe that this is truly alarming, and if the economic figures won't put the message across, let us hope that recent steel layoffs will.

I know that many steel executives in the U.S. point a finger at the Japanese and say they're dumping steel on our shores, and perhaps there is considerable merit to some of those arguments. Certainly, we can never have free trade in the world unless we also have fair trade. But in our rush to find a culprit, let us not overlook the fact that because the Japanese have worked so assiduously to modernize their manufacturing, the average Japanese steelworker today is 25 percent more efficient than the average American steelworker. In fact, in some of the newest Japanese plants, such as Kimitsu, a Japanese worker produces three times what a steelworker at the U.S. Steel plant in Gary, Indiana produces — the heart of our own steel industry. So when 15,000 American steelworkers get laid off the job, let's make sure that everyone understands why — they are paying the price for a long history of "capital punishment" here in our own country. Looking ahead, I think most of us are also aware that our capital investment needs during the next decade will be enormous. While I was serving at the Treasury, we did detailed analyses of these needs and concluded that between 1975 and 1985, the country should channel no less than $4- to $4.5 trillion into private investments if we are to achieve our goals — roughly three times the amount we had invested in the decade preceding. In our view, there was no other way that we could satisfy urgent public requirements to develop greater self-sufficiency in energy, to improve the quality of our environment, to create safer working conditions, to replace worn-out housing stock and provide more homes for a growing population, and to modernize our industry so that we might remain competitive internationally. Most importantly, only with that kind of investment — investment, let me repeat, that would be three times higher than in the past — would we be able to provide jobs for a rapidly growing labor force. Between 1975 and 1985, by our calculations, the economy would need to create 18 to 19 million new jobs — a quantum leap over the level of job creation in the previous ten years....

The hard truth is that we have been suffering from a profits depression in this country — a depression that might almost bear a label, made in Washington, D.C.; and a depression, I might add, that has had a devastating impact upon the working people of this country.

The larger point that I wish to emphasize, however, is that even to restrict our focus to the broad range of economic matters is not enough. We must also recognize that we now operate in a very political environment and that to translate our economic goals into realities, we must also work through the political system. Too often, it is thought that if one simply lays out the best solutions to public policy problems, they will be adopted through the sheer force of their brilliance or because they make such good sense. But the political system is not that responsive to good ideas, even if they are brilliant. Good ideas, like good works, may make you feel more virtuous, but they do not necessarily accomplish anything unless someone guides them to fruition. Certainly, in the political world, many good ideas are quickly forgotten or filed away in libraries because no one has mobilized political support behind them. Thus, in trying to make capital formation a central core of our national economic policy, I think it is vitally important that we pay attention to how we can win the political fight as well as the economic one. As I have indicated, there does appear to be a groundswell of support in the public and in the Congress and in certain parts of the Administration of stimulating greater capital investment. A major task of the coming months, I would urge, is to encourage and strengthen that support. Volunteer groups, civic associations, trade associations, veterans groups, people at the grassroots level — these and many more must be enlisted in the cause. National advertising campaigns must begin or be expanded. Letters must be written to the Congress and to the White House. And in the end, we must generate enough public support that the politicians in Washington will know that how they vote on economic policies will ultimately make a difference in the ballot box. I do not suggest that it is easy for citizens to make their voices heard, much less to change the way that things are done in Washington. It never has been easy in a country as big and diverse as ours, and sometimes it seems like it is getting harder and harder to make Washington even listen. But we also know that today our economy is drifting perilously close to the edge of the waterfall. And unless we make our voices heard soon, it really won't make any difference any more. So this is a great task before us. Yet let us remember that it does have this satisfaction: if we succeed, we will have acted in the best traditions of our fathers — we will have built wisely and well for the next generation.

"The Nature Of The Capital Problem In The Coming Decade"

by Paul W. McCracken

The statistical evidence is quite clear that during the 1970s the processes of capital formation have been more sluggish than at any time since the Great Depression....There is urgent need for major investments to augment domestic energy supplies, but the thrust of government actions and rhetoric is, to put the matter blandly, not encouraging to such investment.

On balance, however, both economic logic and the empirical evidence suggest that an economy in which the growth of its stock of productive capital lags will also experience some combination of adverse results. The result is that the rate of increase in real incomes will be reduced. It is economies which equip members of the work force with large amounts of capital that also tend to generate high real incomes. One man equipped with an earth-mover can rearrange the landscape more quickly than a man in a poor country equipped only with a shovel. A century ago in this country half of our labor force was in agriculture. This year 3.5 percent of the workforce is in farming, and there is a good deal of grumbling that this 3.5 percent is producing so much that it is spoiling markets. Indeed, the absolute number of people employed on farms has been declining since its peak in 1926. While many things have contributed to this rising productivity in agriculture, a major factor has been the enormous increase in capital per farmer that is represented by items ranging from huge tractors to automatic silos....

Technological developments remain disembodied ideas (they remain "academic") until they can be given expression in actual output....This slowing down of research and development in the 1970s together with the sluggish pace of capital formation carry with them a synergetic potential for a significant deceleration of improvements in real incomes during the years ahead. If factories and stores and generating plants and other facilities that normally would have been built were not built, they are not now going to be opening up the new job opportunities that their going on-stream would have involved.

"Increase Investment – Increase Productivity"

by Marvin G. Mitchell,
Chicago Bridge Iron Company

...Historically, industry has led the way in investment in labor saving equipment and new technology. In recent years, however, Japan, Germany, and some others have invested much more proportionately and this accounts for practically all of their gains in relative productivity. In my judgment, capital investment and improved productivity have a direct relationship. In other words, if we increase investment, we increase productivity. And we must have increased productivity, first, to help fight inflation at home and, second, to allow us to be competitive in worldwide markets.

A relatively new consideration is that of environmental protection. It is becoming increasingly difficult to build any sort of manufacturing facility within the U.S. Any project involves substantial debate with numerous local, state, and federal agencies. It involves preparation of massive documents called environmental impact statements. Frequently, it involved litigation with environmental groups that may extend the date of completion by an indeterminate amount, often measured in years. Another uncertainty is that of energy. All productive facilities require energy and, for some, energy represents a very substantial portion of the product's cost. No one knows just what sort of energy will be available nor at what cost....

Actually, to the best of my knowledge, the U.S. is the only major industrial nation in which the government assumes an adversary posture toward business rather than remaining impartial or even behaving as a partner. Every other industrial nation encourages business to invest in plan and equipment, develop resources, and participate in worldwide trade activities...