

Babson's Point Of View On -

COOLING THE BOOM

It is now official. President Johnson would like to see Congress take action to cool off our overheated economy. He is worried about rising prices and believes that first steps should be taken before the elections to prevent runaway inflation. He also called on the money managers to ease the "inequitable burden" of high interest costs.

STEPS RECOMMENDED

In his message to Congress, Mr. Johnson asked for only a limited amount of legislation now. However, there was an implication that if his first attack on inflation should not be effective, more recommendations for new laws would be made. This would presumably be done after the turn of the year.

But for now - before the current session heads for the hustings - he is asking for congressional action to suspend the 7% tax credit on business investment in new machinery and equipment from September 1, 1966 to January 1, 1968. Also, deferment for the same period is asked for the fast tax write-off on new buildings. All other anti-inflation action sought is in the form of requests: (1) To Congress to go slow on appropriations for non-defense; (2) to the Federal Reserve to ease interest rates; (3) (3) to the government agencies not to add to the demand for money; (4) to business and labor to hold prices and costs down.

BOY ON A MAN'S JOB?

To us it looks very much as though suspension of the investment and construction tax relief - even if promptly made effective - would be too small an effort in the face of such a mighty inflation wave. It would be like fighting a big forest fire with a bucket of water. The outpouring of credit which has been going on for years cannot be halted by an attack on a small front.

Furthermore, timing is most important. If the economy is overheated - and most economists agree that it is - any action taken to cut back the demand pressure on our productive machine should bring results fairly rapidly. The President himself pointed out that order backlogs for machines and equipment are months behind pro-

duction right now. It is not likely that plans already in operation will be cut back very much by the suspension of tax relief. Perhaps the best that can be expected is that projections now on the drawing board will be postponed. Thus, the desired impact on the economy may be a long way off... when it is needed here and now.

ASKING AND RECEIVING

And, as for the requests made of Congress, the money managers, businessmen, and labor leaders, it is highly doubtful that early decisive action can be expected. It is the same old story. Management may hold back on price hikes... but not if unions keep punching wage costs ever higher. Labor in turn points to historically high profits and says they want theirs too! Congressmen who are about to go before their voters are under pressure to "bring home the bacon." No, human nature is not going to change just because the Chief Executive says we must slay the inflation dragon!

As far as the Federal Reserve authorities are concerned, we must not forget that they are charged by law with keeping prices from running away. In addition, for months now, the whole brunt of the inflationary onslaught has been borne by the Reserve Board. They can hardly make money easier and less costly until they see higher-price pressures subsiding... especially since this is the first time the Administration has offered to help fight the battle. Hasty moves now toward money ease could really put the fat in the fire.

IT'S A BIG JOB

We are very much afraid that the enormous size of the job ahead of us - dampening the inflationary fires - is not fully understood. More than a "balance" of the national budget, more than a slowdown in business expansion, more than a tiny and selective tax rise, more than a mild restraint on soaring money and credit supplies... will be necessary before inflation can be licked. All of us will have to give up something to win the fight. Otherwise we will all be burned by the inflationary fires as they lick ever closer to our own particular homes and interests.

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