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'U.S. in Jeopardy'

Federal Reserve Chairman's Grim View of Inflation

Washington

Federal Reserve Board Chairman Arthur F. Burns, in a somber, gloomy assesment of inflation, said yesterday that "if past experience is any guide, the future of our country is in jeopardy."

At the commencement exercises of Illinois College in Jacksonville, Ill., Burns said that if the "debilitating" inflation continues at anything like present rates, it would "threaten the very foundation of our society."

Burns was considerably more pessimistic about inflation than President Nixon, who told a nationwide radio audience Saturday that "the worst is behind us."

Moreover, Burns took issue with the standard administration explanation of the main origins of inflation — that is, skyrocketing food and fuel prices outside of its control.

Burns placed more emphasis on "awesome" federal spending, a response to "individuals (who) have come to depend less and less on their own initiative and more and more on government to achieve their economic objectives."

Burns appeared deliberately to be using strong language. "The gravity of our current inflationary problems can hardly be overestimated," he said. "Except for a brief period at the end of World War II, prices in the United States have of late been rising faster than in any other peacetime period of our history.

"If past experience is any guide, the future of our country is in jeopardy. No country I know of has been able to maintain widespread economic prosperity once inflation got out of hand. And the unhappy consequences are by no means solely of an economic nature."

The federal reserve chairman now has the strong support of other members of his board of governors, as was evidenced in a commencement speech by one of them, Andrew F. Brimmer.

At Upsala College in East Orange, N.J., Brimmer said not only that current inflation rates would persist, but

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there "is some danger of expanding the high rate of price increase on into 1975." Both Burns and Brimmer joined with the Administration in a solid front against Democratic proposals for a tax cut.

Burns referred to the fact that financial markets now have "come under severe strain," and that "the liquidity of some enterprises has been called into question."

He left no doubt that the federal reserve would continue to try to reduce the growth of money and credit, and although this would result in "troublesome" higher interest rates ,"it must for a time be tolerated."

Burns said bluntly there can be no quick return to price stability, and that the fight against inflation would be costly in terms of economic activity, jobs, the housing industry — and that all this would necessitate the continuation of a tight money policy.

Once again he called on the Nixon Administration to help out the Federal Reserve Board by following a more restrictive fiscal policy. In this, Burns seems to be lining up on the side of Treasury Secretary William Simon, who has been urging a return toward a balanced budget.

The chairman of the nation's central bank also lectured consumers for failing to exercise discipline in their own spending. "We have become a nation of impulse shoppers, of gadget buyers," he said.

"Many of us no longer practice comparative price shopping — not even for big-ticket items. Careful spending habits . . . could contribute powerfully to a new emphasis on price competition in consumer markets."

He noted that governments in some major countries have been toppled recently, in part because voters lost confidence in the ability of their leaders to deal with rising prices.

"Among our own people," Burns said, "the distortions and injustices wrought by inflation have contributed materially to distrust of government officials and even to some loss of confidence in the free-enterprise system."

For the first time he raised the specter of one of the most frightening phases of the Great Depression — home foreclosures. Observing that real weekly take-home pay has gone down this year, Burns said:

"The real value of accumulated savings deposits has also declined, and the pressure of rising prices on family budgets has led to a worrisome increase in delinquency rates on home mortgages and consumer loans."

The federal reserve chairman urged the government to take a number of steps, in addition to a more conservative spending policy, to help bring inflation under control.

Among them would be a wage-price review board to "minimize abuses of economic power," and other elements of what is sometimes called an "incomes policy," including more vigorous enforcement of the antitrust laws, modification of minimum wage laws for teenagers and removal of what he called "impediments to increased production that still remain in farming, construction work and other industries."

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