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THE CAPITAL "CRISIS": OBSERVATIONS ON ITS EXISTENCE AND SOLUTION

Remarks by

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Alan F. Blanchard*

It is always a pleasure to be asked to speak on a topic as broad as the state of the capital markets, since it allows you to step back from your normal, day-to-day preoccupation with crises, and take a more thoughtful overview of some of the fundamental trends in the area for which you allegedly have some responsibility.

In this context, I would like to look this morning at the capital "crisis" which is currently receiving so much attention; first in terms of what it is, if anything, and then how it might be solved. Specifically, I would like to to consider three topics:

1. What America is going to need from its capital markets over the next ten years.

2. What the consequences of this need are and possible ways to fulfill it.

3. Some "preconditions" I think the business community should be working to develop, if a long-term solution is to be found.

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Since we may get a little bogged down in statistical details as we go along, let me summarize my message right at the beginning. It seems to me that America does face a "capital crisis" over the next ten years, if the estimates being made of necessary business investment are anything like realistic. Further, I believe that the consequences of not dealing with this problem could be severe. Specifically, the lack of a solution could result in lessened economic growth, the increased concentration of business, and far greater government intervention in the private sector.

My very unsophisticated analyses suggest that feasible technical solutions to the problem probably do exist. Increasing real GNP growth to a rate necessary to generate the needed savings, with no increase in the rate of savings, seems improbable based on recent experience. However, increasing the rate of savings to make more funds available for investment does seems a possibility. Further, some steps could probably be taken to enhance the attractiveness of corporate securities and, therefore, business' share of savings.

That is the first half of my message, and there really is not much in it that is new. My second point is the one new point I plan to make, and I really view it as by far the more important point. I have concluded that <u>defining</u> the capital adequacy crisis is not the problem. Rather, I am convinced that solving the capital problem requires the fulfillment of some "preconditions." None of the feasible technical solutions required will happen, in my view, without some sense of concern, cooperation and action by people outside of the corporate sector. And I believe that the level of concern about the problem outside the business community is small, and

the credibility of business in convincing others is even smaller. Since solving the problem requires massive action outside the business community, your major effort should be on creating the necessary preconditions.

I know that is quite a mouthful. Let me try to demonstrate each of these points in turn.

WHAT AMERICA NEEDS FROM ITS CAPITAL MARKETS

Some people may believe that the capital crisis has become an overworked topic over the past months. But I believe that the question is sufficiently important that it would be very difficult to overwork it. Further, it is sufficiently complex that having someone present a slightly different, and hopefully simplified, view of why people think there is a capital crisis might be helpful.

To begin to appreciate why there might be a capital crisis, you need to first have some agreement on the role of the capital markets. This is my second attempt in six months to try to describe in simple terms the basic role of America's capital markets. The first attempt was in testimony which the Commission presented to the new Subcommittee of the House of Representatives Appropriations Committee responsible for review of the Commission's budget.

Last spring, in trying to provide an overview of how the Commission views its responsibilities we said the following:

> I suggest that we want two conceptually simple, but operationally complicated, things.
>
> First, the capital markets must provide industry, and to an ever increasing degree government, the funds required for continued growth. The availability of funds for investment greatly affects the growth in the capacity of American industry, the subsequent growth of real income for our population, our standard of living, our rate of inflation. Secondly, as the other side of the coin, our capital markets must provide individuals with a place to put their savings, directly or indirectly, with some assurance that their savings will grow so as to provide for their future personal needs.

ESTIMATES OF INVESTMENT NEEDS

This morning, I want to focus on the first point - the provision of the funds needed by American business for its plant, equipment, and working capital over the years ahead.

There is certainly an increasing concensus that the needs of American business over the next years are going to be immense. Chase Bank has been running what I think is an excellent series of ads with titles like "A Time to Cry Wolf." Secretary of the Treasury Simon has spoken extensively on the problems of insufficient capital investment. (In particular, I refer those of you who are interested in pursuing this topic to Mr. Simon's May 7, 1975 testimony before the Senate Finance Committee.) Finally, Business Week had a recent cover story called "Capital Crisis - The $4.5 Trillion American Needs to Grow."

I would like to provide one explanation of how people are deriving these and similar huge numbers by drawing very heavily on the New York Stock Exchange's study of the 10 year needs of corporate and non-corporate investment, which I recommend to you very highly.*

The Stock Exchange estimates that America will have total investment needs of $4.7 trillion between 1974 and 1985. Exhibit 1 (following this page) illustrates the major components of this need. Business investment, which the Exchange breaks down into a series of categories of plant and equipment expenditure needs and other needs, will require a total of $3.4 trillion; residential construction, slightly over $1 trillion; and government, $175 billion.

Obviously, any estimate which extends this far into the future must be based on a number of very "heroic" assumptions, but I don't think the Exchange's numbers appear too unreasonable. Estimates for the business sector are based on the Exchange's estimate that there will be fairly significant increases in the amount of annual investment in plant and equipment in most sectors of the economy. (Exhibit 2 summarizes the historic and assumed rates of plant and equipment growth.)

I have not charted the bases for the estimates in the other sectors, but, again, they seem reasonable. Residential construction is estimated to go from an average of 1.8 million housing starts over the last 5 years to 3 million housing starts a year by 1985.
The government's deficit estimate assumes the same rate as that which has historically occurred. (In view of the current Federal government

* "The Capital Needs and Savings Potential of the U.S. Economy," The New York Stock Exchange, September 1974.

Exhibit 1

NYSE Estimates 1974-1985 Investment Needs of $4.7 Trillion . . .

Business Investment			3,418
Plant & Equipment Expenditures		2,568	
Energy	824		
Basic Materials	328		
Transportation	225		
Communications and Services	772		
All Other	419		
Non-Profits, Agriculture, Inventory Change		850	
Residential Construction			1,085
Government Needs			175
Federal Deficits	42		
Federal Credit Agency (Net)	103		
State and Local Deficits	30		
Total			4,678

Exhibit 2

Growth Rates for Business Plant and Equipment Investment
Are Expected to Increase . . .

	Annual	
	PROJECTED GROWTH 1973 — 1985	HISTORIC RATE 1961 — 1973
Energy	12.7%	9.4%
Basic Materials	10.7	9.0
Transportation	9.6	7.3
Communications & Services	8.4	8.8
All Other	9.9	9.4

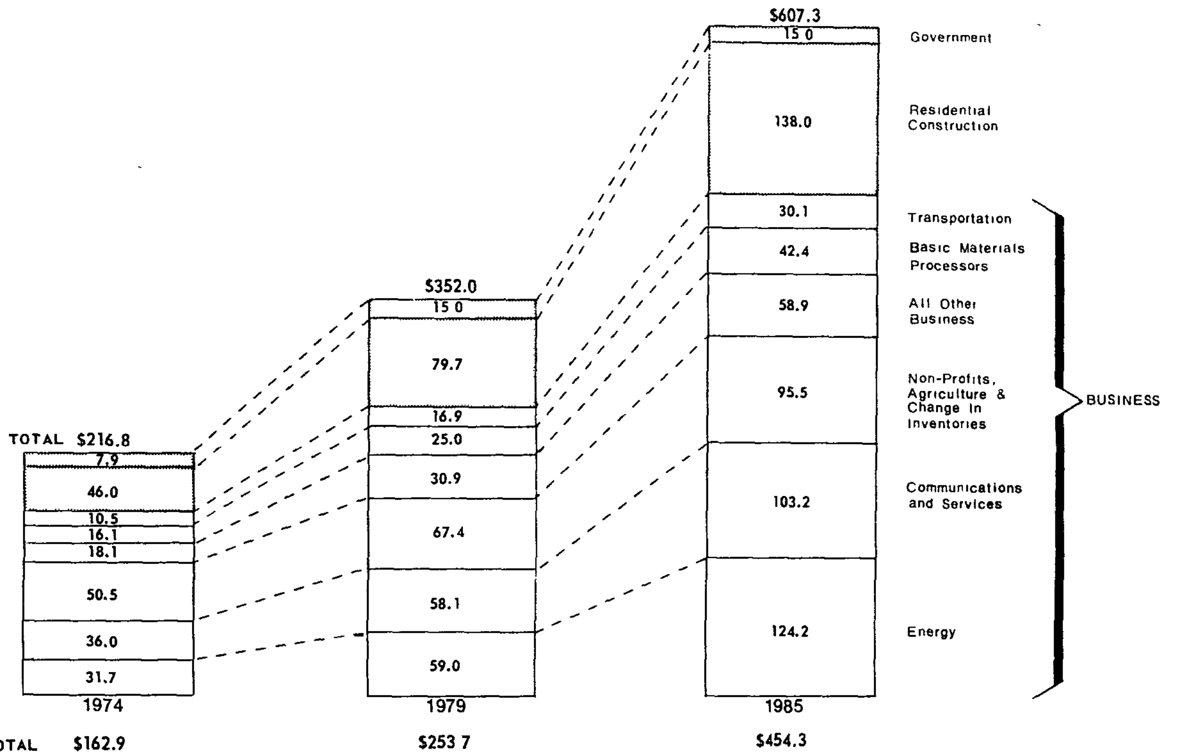
deficit estimates, in the $60-80 billion range, the total estimated deficit of all government of an average $15 billion a year over the next 11 years appears quite conservative.)

Not surprisingly, these aggregate investment figures lead to a substantial annual increase in required investment. Exhibit 3 presents annual estimates based on the aggregates, showing that total investment needs are expected to rise from $216.8 billion in 1974 to $607 billion in 1985. These figures indicate that this aggregate need means that our investment needs will be growing over 10 percent a year. Required investment in 1985 will be almost 2.8 times the 1979 figure. The business need, the portion in which most of you are most directly interested, grows from $163 billion in 1974 to $454.3 billion, as shown by the unshaded portion of the exhibit.

BUSINESS' ABILITY
TO MEET NEEDS INTERNALLY

I have a lot of trouble comprehending numbers of this magnitude and getting a sense of whether they represent a problem or not. Obviously, providing these funds to business is not a problem to the extent that business can meet its needs through its own sources of funds, retained earnings and depreciation. It is the existence of these sources which creates the difference between capital formation and the capital markets. Business need not call on the capital markets at all as long as it can finance itself internally. And, historically, it has been able to do this to a large extent.

If you eliminate all of the transfers within the business sector, business' capacity for meeting its own need internally depends on the magnitude


NYSE Predicts a Significant Increase
In Resource Need Over the Next 10 Years . . .
TOTAL $216.8
7.9
46.0
10.5
16.1
18.1
50.5
36.0
31.7
1974
$352.0
15 0
79.7
16.9
25.0
30.9
67.4
58.1
59.0
1979
$607.3
15 0
138.0
30.1
42.4
58.9
95.5
103.2
124.2
1985
Government
Residential Construction
Transportation
Basic Materials Processors
All Other Business
Non-Profits, Agriculture & Change In Inventories
Communications and Services
Energy
BUSINESS
BUSINESS TOTAL
$162.9
$253 7
$454.3

of "business saving". And, the Exchange projects business savings to increase steadily along with GNP.

Exhibit 4 shows the projected level of business savings, as well as the actual levels since 1965 . While the actual pattern of business saving has been somewhat erratic as compared to GNP growth, the Exchange is assuming a steady dollar increase in the future. As shown on Exhibit 5, the Exchange assumes that there will be some decline in business savings, as a percent of gross national product. Since 1965, business savings shows a fluctuating relationship to GNP, but the overall pattern trends downward. The Exchange is expecting a continued decline, with the general level of business savings somewhere in the mid range of the recent historic pattern.

When we compare the funds the Exchange estimates will be available from internal sources to the overall estimate of corporate need, as is done on Exhibit 6 (following page 8), we see an ever increasing dependence on the non-business sector of the economy. The amount that business has to draw from non-corporate sectors increases steadily from $16 billion in 1975 to $87 billion in 1985.

This increasing gap, of course, can be thought of as the business sector becoming less self sufficient. What really is projected to happen is that the business sector will become increasingly more dependent on borrowing from other sectors of the economy if it is to make the type of investment it needs. So the question becomes, can non-business sectors provide increased capital to business?

Exhibit 4

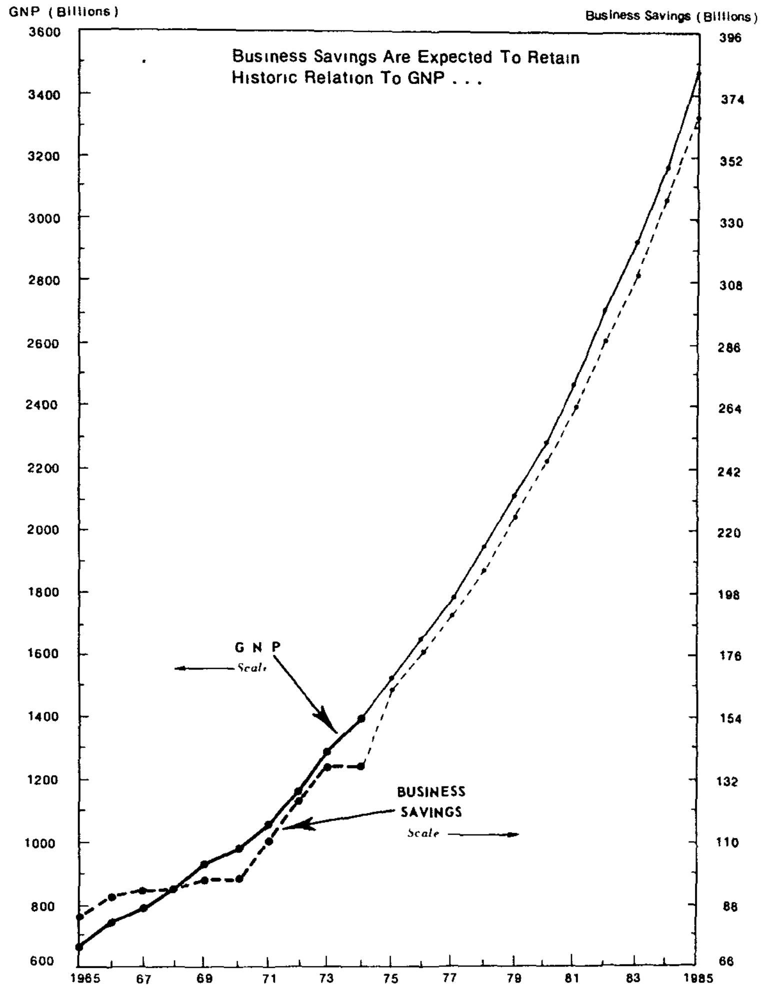
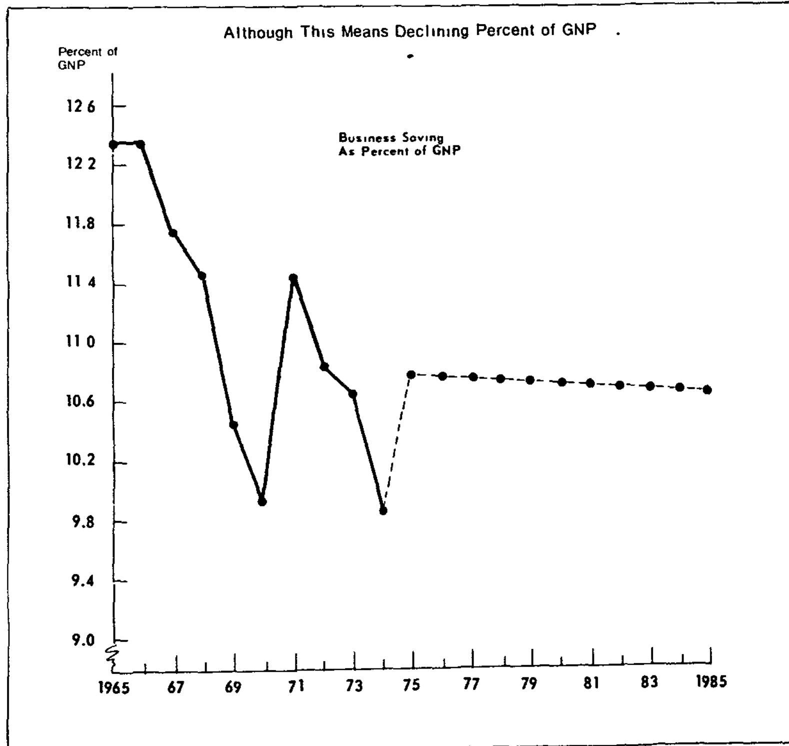


Exhibit 5



NON-BUSINESS' ABILITY TO FILL IN THE GAP

Let me now make a less than profound observation: American business can only borrow from other sectors the funds that those sectors have available. In terms of the national income accounts, this truism means that the maximum amount that business can possibly borrow is what the economists call "personal savings". And in obtaining personal savings, business "competes" with two other users of savings: the government, to the extent that it has deficits, and residential construction. How much personal savings does it appear will be available?

Here, it is interesting to note that the New York Stock Exchange predicts a sizeable decline in the rate of personal savings (Exhibit 7). Basically, it suggests that savings will fall from a 1965 - 75 average of 5 percent of gross national product, to 3.9 percent of GNP in 1985. (I might say here that some people I respect take some exception to this aspect of the Exchange's estimated decline. Some academic researchers have suggested to me that they see no reason for the rate of personal savings to fall substantially.) Of course, even with this decline in the rate of personal savings, savings are still expected to grow substantially in dollar terms, since a significant growth in the gross national product is expected.

Unfortunately, the demand for these savings is expected to grow even more substantially. You will recall that I indicated that there were three uses of these funds: government deficits, residential construction, and transfers to the business sector. What are business'

Exhibit 6

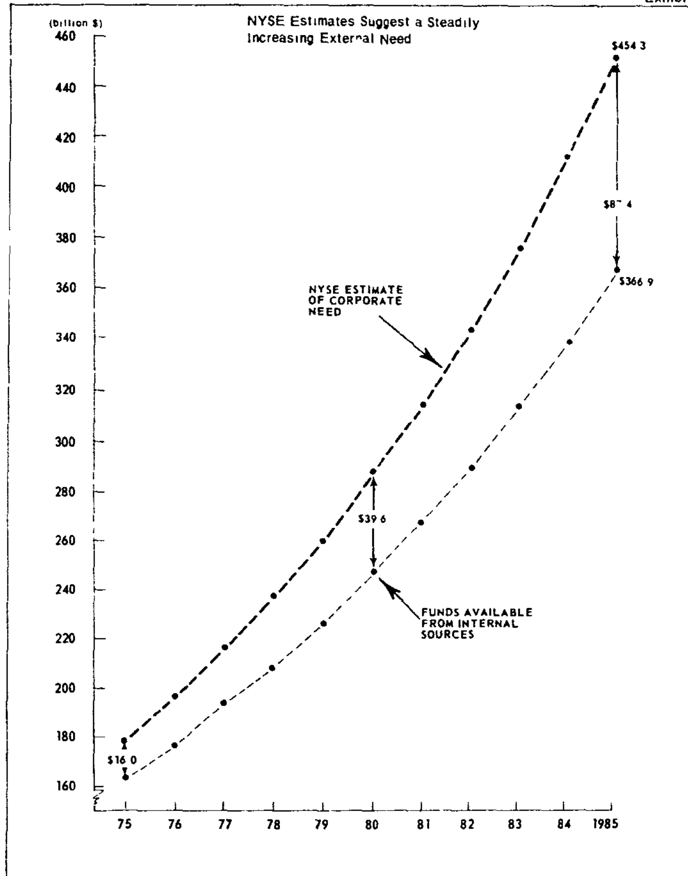
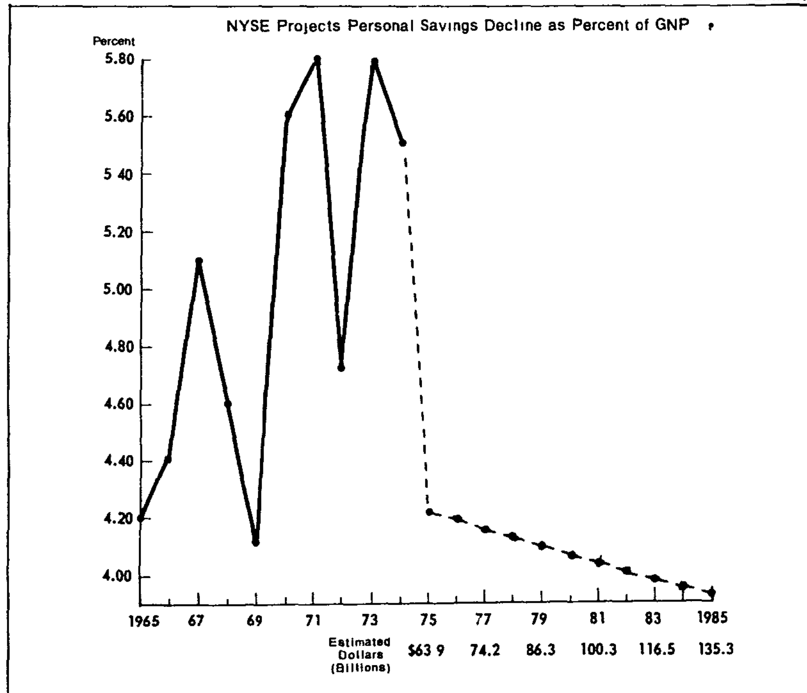


Exhibit 7



odds for getting an increased share of these savings?

Obviously this depends to some extent on how successfully business competes with the other possible uses. But let us assume the worst, as we have done on Exhibit 8. I think it is very safe to assume that, one way or another, the government will get its needs met first; if it does, this subtracts the shaded portion of the savings shown on Exhibit 8 from the funds available. Just to explore the worst case assumption, lets see what happens if residential construction gets its need met next. This cross-hatched area below the zero line on exhibit 8 is what is "left over" after the estimated residential construction needs are met. What this means is that not only are personal savings not adequate to meet business needs; they can't even meet residential construction needs. The combined amount of estimated government and residential construction fund needs are greater than the estimated amount of personal savings available every year from 1975 through 1985, by the amount of the cross hatched portion of the exhibit - and remember, government's estimated needs may be conservatively estimated.

The Resulting $600 billion Deficit

Since this discussion has been a little complicated and since you are probably familiar with the New York Stock Exchange's $600 billion gap which has been so widely discussed, let me summarize where we are by showing all the numbers on one exhibit. The top of Exhibit 9 shows the total uses of funds suggested by the Exchange, which add up to $4.6 trillion for the next 12 years. The bottom of the exhibit indicates and adds up the sources, which I have discussed one by one; you will

Exhibit 8

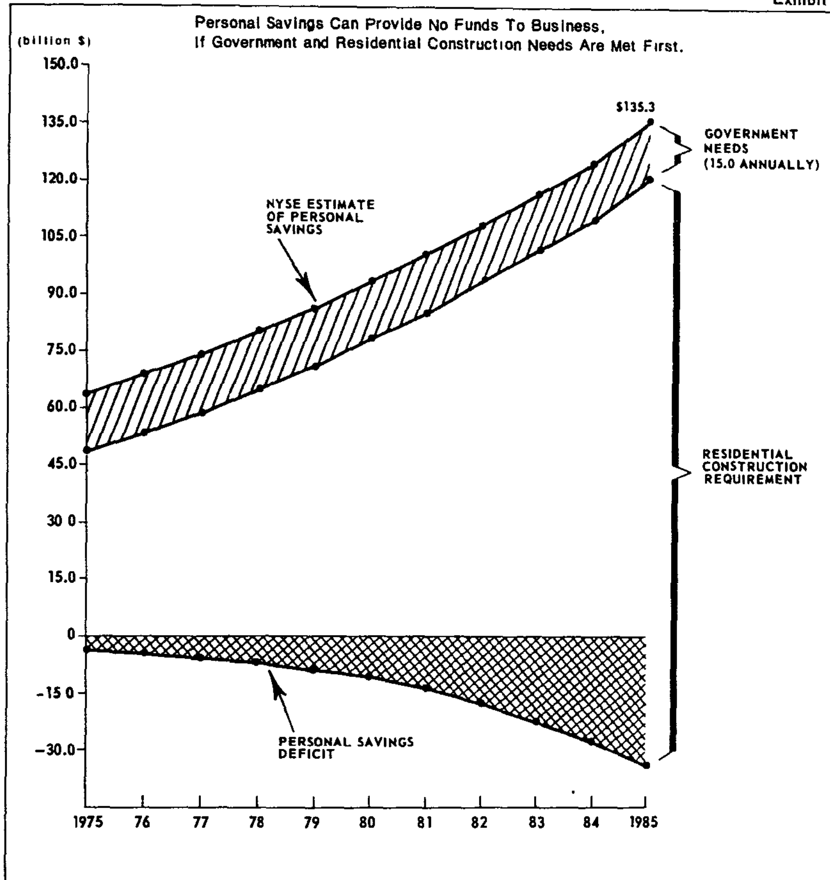


Exhibit 9

Uses Less Sources Creates $600 Billion Gap . . .

Uses of Funds		
Gross Private Domestic Investment		$4,503
Plant and Equipment	$2,568	
Residential Construction	1,085	
Other	850	
Financing Federal Deficits		42
Net State and Local Government Financing Requirements		30
Net Sponsored Credit Agency Borrowing		103
Total Uses of Funds		**$4,678**
Sources of Funds		
Business Saving		$2,923
Capital Consumption Allowances	$2,359	
Corporate Retained Earnings	564	
Personal Saving		1,109
Total Sources of Funds		**$4,032**
Saving Gap		**($ 646)**

see that they are expected to total $4 trillion. It is this difference between uses and sources which creates the $600 billion deficit.

PROBLEM CONSEQUENCES AND POSSIBLE SOLUTIONS

I doubt that I have to stress the consequences of this problem to an audience like this one; I probably should jump right to solutions. But the consequencies are so serious that restating them might not hurt.

THREE CONSEQUENCES

I want to suggest three unfortunate events that could occur, if the flow of capital to business is reduced. You will certainly have thought about the first; you may have thought slightly less about the second and third. These are: lessened reason growth of the economy, increased business concentration, and greater government intervention in capital allocation decisions.

Lessened Real Growth

The most obvious result of low capital availability is a lessened growth in the industrial capacity of the United States. Almost certainly, this could lead to lower real wage increases for employees, increased inflation, as the volume of goods produced trails demands; and less international competitiveness. The United States has trailed most other countries in GNP growth, productivity growth, and real income growth for a number of years. To some extent, this is because we have started from such a high base. However, I suspect that this lower growth cannot last forever without affecting our position of international leadership.

Increased Business Concentration

A more subtle but at least as serious a problem, in my view, is the increased concentration of business. When capital is short, small businesses have trouble getting any. Otto Eckstein, former Chairman of the Council of Economic Advisors, stated this problem very well at the Inflation Pre-Summit Conference last fall. He said:

> More fundamentally, a healthy equity market promotes the competitiveness of the American economy. If the current stock market situation were to persist, there would be an increased concentration of the economy. The larger companies tend to be the most credit worthy and have the ability to stand at the head of the line at the lending windows of the large commercial banks. The banks would become as powerful as they are in Europe and Japan.

Greater Government Intervention

The third problem is the least tangible, but in the long run, I would suggest, perhaps the most troublesome. In my personal view, the existence of a reduction in capital as suggested above would result in substantially increased government involvement in business' capital allocation decisions. Historically, the government has not played much of a role in influencing either the availability or allocation of equity capital. This is in somewhat interesting contrast to the government role toward debt. As a matter of public policy, our country has concluded that there should be a certain amount of debt available, and one of the fundamental purposes of the Federal Reserve system is to help control the availability of credit and, consequently, investment.

Of course, you can argue that when debt/equity ratios get to the levels where they are now, the availability of debt is only academic if no equity becomes available. So I am not sure it would be too bad if the government did become more involved in the overall question of ensuring an aggregate amount of equity availability.

But the danger, I believe, is that a shortage of the type shown here would cause the government to get involved not just in influencing the aggregate availability of equity but in affecting its allocation to individual companies or sectors of the economy. We are already beginning to see some proposals for increased an government role in assuring equity availability and allocation. Lockheed and Penn Central, of course are prime examples of government decisions to provide resources to help preserve individual companies. The Reconstruction Finance Corporation, which some influential people have recently proposed to actually buy equity in companies, is a giant step further down this road of government involvement. I think some of you might find that step a bit troublesome.

POSSIBLE SOLUTIONS
TO THE PROBLEM

Having now demonstrated the sometimes interesting, but not very frequently helpful, governmental tendency to identify problems, let us see how I do on coming up with solutions. It seems to me that there are three possible ways out of this problem: an increase in the real gross national product; an increased rate of savings; or increased business ability to compete for funds with other uses.

Increasing GNP Real Growth

Since both personal and business savings, the two things which can grow to meet the investment need, are a function of gross national product, increasing the rate of growth of real gross national product might well throw off sufficient savings to meet the need business projects.

Unfortunately, however, if you look at the rate of growth which would be required to meet the business need (even if it did not grow with GNP), the chances of obtaining it do not look too great. Exhibit 10 compares the needed, projected, and historical rates of GNP growth. The top dotted line indicates that, if New York's estimate of the percentage of GNP which will be saved is correct, a real GNP growth rate of 6.85 percent a year would be required to throw off the saving to meet the estimated total investment need. That rate is almost twice New York's expected growth rate of 3.6 percent. Worse, comparing the rate needed with the actual GNP growth shown each year for the years since 1965 indicates that only in one year has a 6.85 percent growth rate been obtained, and that the average rate has been 4.2 percent. What we are saying, then, is that we would need to have a GNP growth rate over the next 10 years 50 percent higher than what it has been over the last 10. Extreme optimism is required to believe this could be obtained.

Increasing The Rate of Savings

The second possible solution, of course, is an increase in the rate of savings. If the savings rate estimate is correct, and if the needs are correct, higher savings per dollar of GNP might well meet the need. Exhibit 11 compares estimated, needed and historical rates of savings.

Exhibit 10

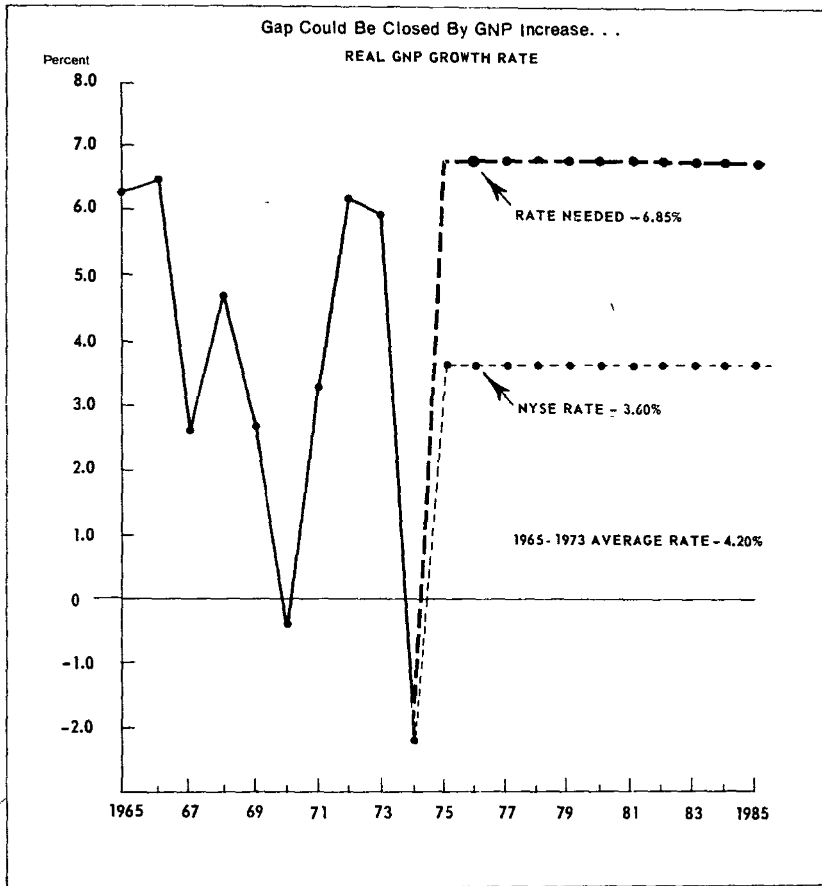
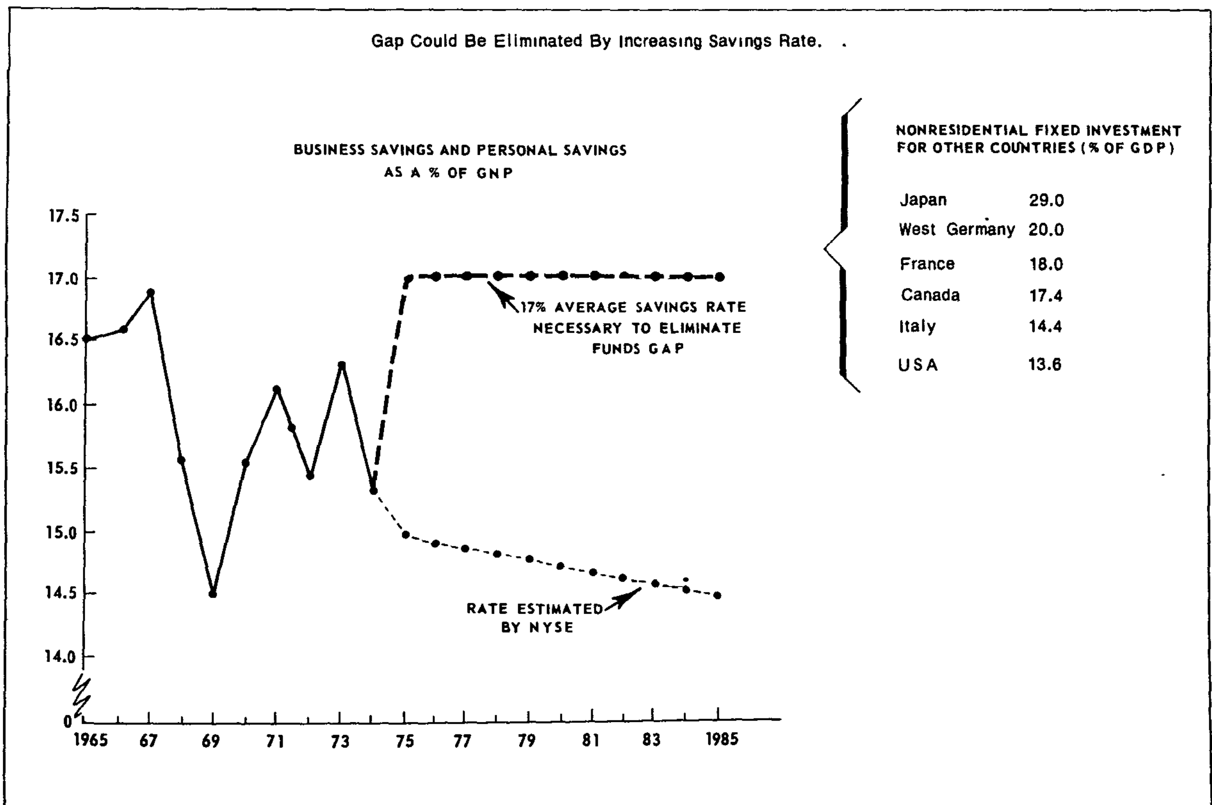


Exhibit 11



Here, I feel the prospects are little more encouraging. The New York Stock Exchange estimates that total savings rate (business plus personal) will steadily decline from 15.3 to 14 percent of GNP. If the savings rate could be increased to 17 percent, the gap could be removed.

It is the appeal of this possible solution, I think, which is behind all the proposals for increasing incentives for individuals to save, rather than to spend. If all the assumptions behind this analysis are accepted, such suggestions look extremely reasonable.

Increasing the Attractiveness of Corporate Securities

Finally, if neither of these solutions for bridging the capital gap is sufficient, the only other possibility I see is finding some way to make the purchase of corporate equity or debt more attractive relative to other forms of personal savings. This leads to a consideration of how the attractiveness of corporate equity or debt ownership can be increased.

A very well known consulting economist, Peter Bernstein, states the problem here very accurately in an analysis summarized in a Business Week article last summer.

> If this financing is to be accomplished, therefore - and prosperity and economic growth in the years ahead surely depend upon it - we will have to convert the individual investor from being a net seller of equities, as he has been for many years, into a major net buyer.

The extent to which individuals have been sellers of each of the past 10 years is dramatic. As shown by the bars on Exhibit 12 representing yearly individual net equity sales, individuals have been substantial sellers of equity each year: in fact, the average amount they have disinvested has been $3.9 billion a year. In four of the past ten years, the disinvestment of individuals has been greater than the total net equity issues of corporations.

The reasons for this disinvestment are the topic of a whole other talk, or maybe even a series of talks. But what has happened, as Mr. Bernstein points out, is that individuals have substantially decreased the percentage of their financial assets which are securities. As Exhibit 13 shows, this percent remained fairly steady, in the range of 38 to 44 percent, in the years 1965 to 1972. However, in 1973 and 1974, significant decreases in this percentage occurred. (Obviously, the movements in the market affect these numbers to some extent. We have done an analysis to see the extent of this impact, and it does not appear to be too great.)

CREATING THE NEEDED PRECONDITIONS

It seems to me that the bottom line of this message is very clear. The United States has substantial capital needs, and there is real danger that they will not be met, if we continue business as usual. And if they are not met, the consequences to the welfare of our country may be severe.

Exhibit 12

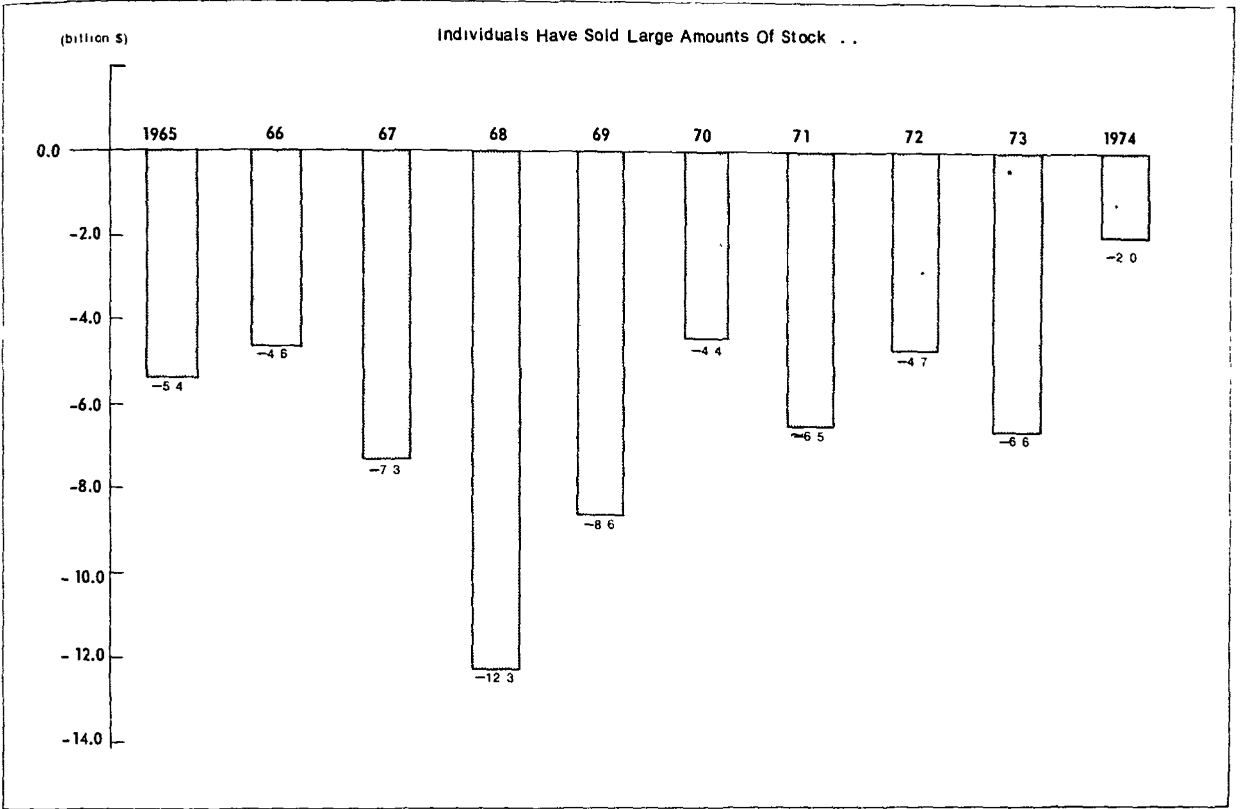
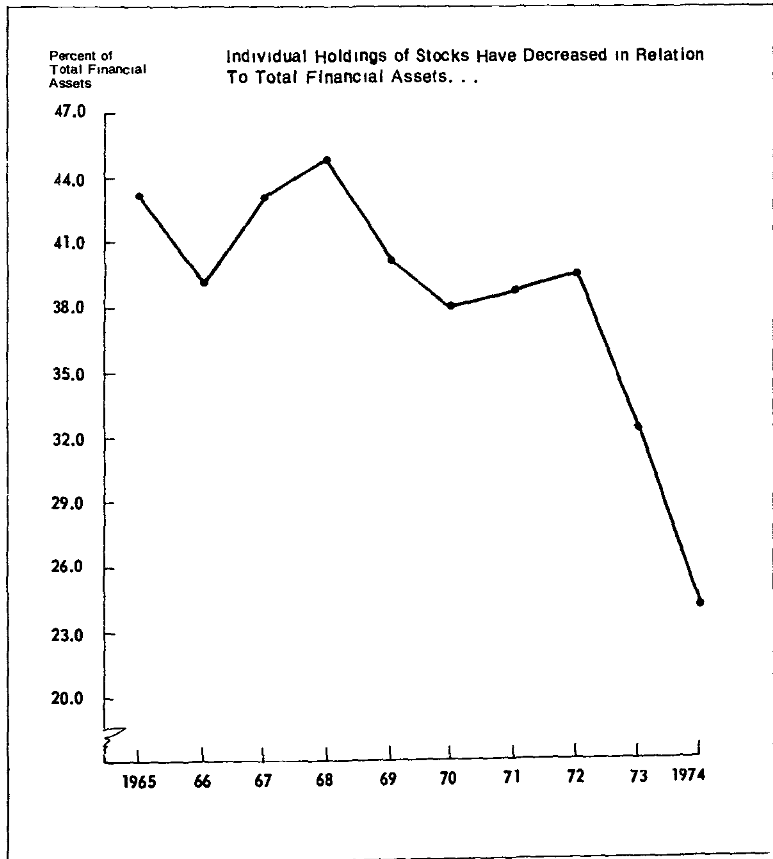


Exhibit 13



I think that this is an extremely important message, but having delivered it, let me share with you my sense of futility and frustration in delivering it to audiences like this one.

The Commission Debate About Analyzing The Crisis

The Commission staff devoted a fair amount of attention to organizing its own analysis of the capital adequacy problem about a year ago. I explored the possiblity of doing a study of the capital shortage with some professors at the Harvard Business School; I also looked into the possibility of acquiring the competence to do the analysis ourselves. Frankly, the project just got put on the back burner because of the effort that was being devoted to negotiated rates, the securities legislation and some other high priority projects.

Then, over the course of last spring, when our situation settled down just a little, I again gave some thought to trying to organize such an analysis. But as a number of analyses by others increased, and as they appeared to all be coming out with the same general results, I personally reached the conclusion that defining the problem is not really the issue here.

Why "Problem Definition" Is Not the Problem

Let me describe why I reached that conclusion by quoting from a source far more articulate than I, the Wall Street Journal. A front page article on the capital shortage which ran last spring summarized the situation as follows:

> What this country needs, many businessmen contend, is an investment boom. The U. S. just has not been investing enough in new factories and equipment to provide the jobs needed by a growing work force and the expanded supply of goods needed to avoid inflation... The U. S. has lagged behind other countries in expanding its industrial base in recent years... the root problem is a lack of capital, businessment say. The much publicized energy shortage really is not as serious as the capital shortage, contends General Electric Company Chairman Reginald H. Jones...studies of the capital shortage abound.

The article goes on to describe the work that had been done by the New York Stock Exchange, the Chase Manhattan Bank and the Department of the Treasury. Since this article was written, far more has been done. As earlier mentioned, both the Brookings Institution and Business Week have done additional work which reached roughly the same conclusion.

All of this made me realize that the problem of the capital shortage has been more than well enough documented to persuade those who want to believe it. What this said, I concluded, was that any additional refining of the numbers and arguing over this assumption really has very little marginal utility.

Convincing The Unconvinced

The problem, in my view, is not whether a particular set of numbers are right; rather, it is how to influence the people who are not inclined to be moved by presentations like this one, whatever the specific numbers are.

Let me again quote the Wall Street Journal, which reached a rather discouraging conclusion:

> But critics consider the businessman's argument for new investment incentives to be self-serving. They dispute the idea that there is a capital shortage... Furthermore, some economists and others contend that more investments by big companies will not solve the nations economic problems, but would merely concentrate more economic power in the hands of large corporations, which they assert already manipulate markets and control prices.
>
> In view of such objectives, the Treasury Chief and businessmen know they have a hard case to sell to Congress and public. Executives sense a strong anti-business sentiment on Capitol Hill as well as a consumer suspicion of businessmen's arguments for higher profits.
>
> The temper of this Congress is strongly anti-business, frets John T. Conner, Chairman of Allied Chemical Corporation.

Since the Journal's article, Business Week made essentially the same points:

> And, finally, the most vocal proponents of the existence of a capital gap - corporate lobbyists, organizations like the New York Stock Exchange and the Securities Industry Assn. - represent those in society that would benefit most directly from measures designed to close it. It does not help that Washington's No. 1 capital gap crusader, Treasury Secretary William E. Simon, has a Wall Street background with the investment banking house of Salomon Bros., a firm that would obviously benefit from pro savings, investment legislation. It certainly does not help that Simon has done far better at selling bonds to Wall Street than legislative proposals to Congress.

What all of this says to me is that the current problem is not fundamentally economic; that is, it is not one that is going to be solved by increasingly sophisticated financial or statistical analysis. It is political, with a small p. And the way it is going to be solved, if it is, is through the democratic political process of convincing more and more people that there is a problem, and that action should be taken to meet it.

Let me expand for just a moment on this conclusion. If you review the possible solutions to the problem which I suggested, all of them require some action by people outside of the business sector. And in each case, the action is one which would affect the most fundamental flow of resources among the various sub-populations of America, of which business is only one.

For example, if the way to increase levels of saving is to allow business itself to generate more savings, this requires either that business make more profit, that it be allowed greater depreciation, or that it pay lower taxes. Of course, you can argue that the stimulative effects of such a change will mean that the economic growth of America will be so much greater that there will be <u>no</u> costs associated with this policy change. But this is not the way the action would normally be perceived. The common perception would be that allowing greater profit or lower taxes to business would cause the shifting of a burden from business to someone else. For example, employees would have to accept lower wages or benefits, or perhaps the government would receive lower tax revenues, which would require raising the taxes collected from the non-business sector or cutting government programs, each of which benefits someone else, if only the government employee who is paid to run them.

Similarly, any action to increase the rate of savings would require that consumers be convinced that it was somehow in their interest to postpone consumption now for the benefit of future gain.

Getting Others To Support Changes

In my opinion, there are two "preconditions" to getting large segments of the non-business community to advocate, or even sit still for, changes of this type. First, they must firmly believe that the objectives which would be achieved by the decisions they are asked to make are important. For example, this requires that people believe such things as that the growth of capacity is important and that the making of profit by business contributes to the general welfare. Second, the general population probably must have, and perceive, a stake in increasing whatever it is they are being asked to do - in this case, increase business profit.

I think that the Wall Street Journal and Business Week are absolutely correct when they suggest that these preconditions do not currently exist. And, I think that the most important objective business should have in dealing with the capital crisis is to bring them into existence. But here I fear that business has three very serious problems. First, its credibility is very low. Second, the general public's understanding of the economic function of such esoteric things as profit and capacity growth is very low, and third, very few people have, or perceive that they have, a stake in the performance of business. I don't think that I really need to expand upon any of these "problems," since they have all received such attention. The important point is that unless these problems are solved, neither of the fundamental

steps required to solve the overall capital problem, in my opinion, is going to occur.

I suggest that what this really says is that the way for the business community to attack the capital crisis is not to analyze it, but to do some indirect things which are necessary to create the preconditions to solving it. I am more than out of time, so let me just list three items for you to think about as possible first steps in creating these preconditions. First, I think that business has got to find a way to get behind a widespread, effective, economic education program. Over the long term, some simple economics courses in high school would probably make more of a contribution to solving the capital crisis than any other single step. In the same vein, effective public service advertising might be very helpful. In short, we need anything that can be done for increasing people's understanding of the problem.

Second, I think that business has got to make a better effort to understand the Washington decision-making process. Business should know the kinds of pressures with which Washington decision-makers must abide and should understand the political difficulties surrounding a decision to contribute to corporate profit. Based on this understanding, business could then work intelligently at developing the kind of political coalition that might make "give-aways to business" feasible. I am more and more convinced that having businessmen come to Washington announcing that they have "reluctantly" concluded that they have to be allowed to make more money for the good of America is not very helpful. But if some union leaders or some foundation heads reluctantly reached this conclusion, it would be a very different story. For this reason, I think that rather than wasting your time trying to lobby your Congressmen on the need for business profit, you should really lobby your union

president, your local university president, or the head of a local foundation. Their conviction is worth ten times what yours is.

And finally, and this is the topic I had really hoped to pursue today, but obviously can not, I think that the final long-term solution lies in finding ways to give more people a stake in the performance of business. I am hearing increasing discussions around Washington of various types of "people's capitalism" programs, like the Kelso plan. Describing how such things might work must be the topic for another session. For now, suffice it to say that there is a lot of evidence that individuals' interest in equity ownership is declining and, it seems to me, that our exalted 30 million shareholders is not really a very big number in a country with a population of 225 million. Giving more people a stake in the performance of business, in my view, has got to be a part of a long-term solution to the capital crisis.