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ACROSS-THE-BOARD MOVE

Business Leaders Prepared To Accept Inevitable Hike

By WILLIAM J. EATON
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HOT SPRINGS, Va. — Many of the men who run America's biggest corporations now accept an across-the-board tax increase in 1967 as virtually inevitable.

They would prefer to see President Johnson make bone-deep cuts in federal spending and avoid any higher levies on corporate and individual income.

But they apparently do not believe that is very likely — or politically possible — and are prepared to see a 5 per cent tax boost to reduce business and consumer demand in the face of rising government spending on Viet Nam.

The question that many business executives are now asking is not whether there will be a rise in taxes but rather: will it do the job of checking inflationary pressures?

COUNCIL SKEPTICAL

Leading members of the Business Council, an organization of industrialists, bankers and merchants who advise the federal government, are skeptical about the braking effect of additional taxes on the economy. They also voiced apprehension that the Congress and the administration would not let a budget surplus pile up dollars in the treasury as a deflationary device.

"If the money's there, they'll spend it," said Council Chairman Wiliam B. (Vev) Murphy, outspoken president of Campbell Soup Co.

Neil McElroy, former defense secretary who now is chairman of Proctor and Gamble, argued there was no assurance that higher taxes would curb rising prices.

Yet there is a decided shift of business opinion, reflected in informal conversation and at the closed meetings of the council last weekend, toward acceptance of higher taxes anyway.

COUNCIL ADVISES

An advisory group expressed a widely held view in its recommendation for extension of the [illegible] eign inventment by U.S. firms to narrow the payments gap.

Its report said interest rates had been raised high enough in 1966 and called for "more timely and vigorous use of fiscal policy to dampen demand in a full employment economy."

Business economist who prepared a forecast for the council started with the assumption that taxes would be raised by 5 per cent to offset the cost of the mounting U.S. war effort in Asia.

"We are doing the same thing in our own forecasts," said one council member.

"I'd bet my shirt on a tax increase," said another.

Others who belong to the blue-chip group, however, said they were "wavering" about tax measures. They worry about a sudden slowdown in the economy that could lead the nation into a recession.

SLOWER GROWTH

A panel of experts has advised the council to expect a slower rate of economic growth next year than the 8.3 per cent expansion so far in 1966.

It also predicted slightly less inflation, lower profits, reduced investment in plants and equipment and some easing of tight money by the end of next year.

None of the experts think a recession is lurking around the corner.

Several influential members of the council have called for sharp cutbacks in federal spending and tax increase if needed to halt a price spiral.

They made the recommendations along with AFL-CIO president George Meany and other union leaders in their capacity as members of the President's advisory committee on labor-management policy.

William M. Batten, chairman of J. C. Penny & Co., presented the result of the economic outlook to the 100-man council.

CONTINUE UP

"The economy will continue to move upward in a good rate." Batten concluded in surveying [illegible]

He reported the Gross National Product (GNP) would rise by 6 per cent in 1967 to an annual average rate of $783 billion, up from $738 billion this year.

The GNP, which measures total production of goods and services, is widely regarded as the best yardstick to measure economic progress. It apparently will rise by 8.3 per cent this year. But high prices mean the real growth will be about 5.3 per cent.

The quarter-by-quarter breakdown for the business council forecast shows only a $5 billion increase in GNP in the last three months of next year.

This would be a marked slowdown — about half the rise foreseen for the first three quarters.

NOT A RUNAWAY

The panel of business economists expect prices to go up 3 per cent next year compared with 3.5 per cent or more this year, Batten said this was not a "runaway inflation rate."

Industrial output, he said, should advance by 4 per cent and level off in the fourth quarter.

Lower profits are foreseen because of the high taxes assumed by the economists and a predicted 5 per cent rise in wages and other labor costs.

The experts also expect a slowdown in business investment, especially toward the end of 1967.

This type of spending, on new plants and equipment, which has broken records for three consecutive years, was regarded as a major factor in the credit squeeze and inflationary pressure in 1966.

Businessmen reported, however, a suspension of the 7 per cent tax credit throughout 1967 did not result in any significant changes in investment plans. Most projects are too far along to cancel until 1968 when credit again is scheduled to apply, Batten said.

COSTS MYSTERY

Several businessmen were skeptical of the forecast because Viet Nam's costs are a mystery and almost unpredictable. They said it was hard to see into the future without knowing how the war would be fought in Asia and added that continuation of the buildup at the present rate was probably the least likely event.

The council's work-and-play session here drew several high government officials at one point. Federal Reserve Board Chairman William Martin, AID Administrator William S. Gaud and Central Intelligence Agency director Richard M. Helms all were on the tennis courts.

Helms, who wore white flannel slacks for his tennis outing, was a guest of the council. So was Martin. Gaud urged business to increase its investment in developing countries as a form of foreign assistance.