

Friday, July 5, 1974

Dear Member:

Moscow summit: It's what Nixon didn't agree to that counts. He might have had a great-sounding breakthrough with the Russians, but in fact the U.S. would have been making all the concessions.

That would also have hurt Nixon's anti-impeachment tactics, cost him the conservative votes he'll need to fight in Congress. He avoided both dangers, but at a cost: deferring the big problems.

Neither Nixon nor the conservatives are happy with all this. Both wanted real concessions from Russia, especially on missiles. And despite Nixon's reassuring words about the "routine summit," there are three kinds of basic problems that still lie ahead:

One is the prospect for Russia increasing its offensive lead. Soviet MIRV's may be flying by the time "Summit Four" takes place. The genie will be harder than ever to put back into the bottle.

A second problem is how good are Nixon-Brezhnev relations. Nixon talked of "personal" relations, Brezhnev toasted Congress. He's still Nixon's negotiating partner, but at Watergate length.

The third problem is divided counsel among Admin. leaders. Some, like Defense Sec. Schlesinger, believe in moving slower. Others around Secretary Kissinger say he must go ahead quickly.

This isn't a split on arms or summit policy, but procedures. Kissinger is for making agreements wherever they are acceptable, keeping negotiating going, weaving "a web of interdependence." The Pentagon contends Russia wins on item-by-item negotiating.

The Pres. hasn't really come down hard on either side as yet. The vagueness at Moscow partly expresses this negotiating dilemma, gives hardliners little to fault, "detenters" hope for the future. But there's little doubt why Nixon and Kissinger looked so glum; all they really can tell each other after Moscow is "We survived."

That ten-year trade pact President Nixon signed with Russia: It will have little immediate impact on the flow of Soviet trade, but is a major step toward institutionalizing U.S.-USSR commerce. The official seal of approval is important for the Soviet design. A gov't-managed economy prefers to deal with gov't, not companies.

That's been one thing that hampered trade on the Soviet side. Russian bureaucrats are uncomfortable with U.S. business methods, ad hoc deals, fast action, American impatience with red tape. As a result progress has been even slower than it would be anyway. Soviet trade is no bonanza, as Americans are now finding out.

It was oversold for political reasons after the '72 Moscow summit. Reality is beginning to take over, progress made a step at a time. Still there's been some: 17 firms plan to open offices in Moscow, half have done so; banks too -- Citibank will soon follow Chase.

The trade agreement provides the needed official framework. It talks of offering "good offices" to ease trade transactions, handle the complaints and misunderstandings that arise so often. In short, machinery has been set up to survive trade troubles.

There are already plenty, and short-term they'll get worse. Congress is hostile on giving Russia Most Favored Nation status, disgruntled about providing Moscow huge loans at cheap interest. In fact, the Export-Import Bank is under fire as an institution. The Wall Street Journal has even called on Congress to abolish it.

That \$20 bill. Occidental chemical deal faces rough going. Some of the original plans and targets have already been modified. U.S. businessmen are learning the complexities of Moscow deals.

Point is, though, that the trade momentum can't be reversed, at least not easily. It'll tend to be free of political turns, unless the whole detente policy collapses into renewed suspicion.

The U.S. is about to pass another population trend milestone. At midyear, figures and projections indicate the number of births will drop below 3 million in 1974 -- for the first time since '45. In a very real sense, the postwar "baby boom" is officially over.

Actually, this particular milestone is more than symbolic. It's a fact that births have fallen almost continually since '61, but 1945 was the end of an era in U.S. population growth patterns. It was the last year before the great baby boom got under way. Births exploded from 2.9 million in '45 to 3.9 million by '47.

For years demographic experts have stressed the importance -- and the impact on business -- of the end of the high-birth period. But many businessmen, local planners, others have been reluctant, hesitated to accept the trend's implications & adjust their aims. Here are some of the market changes already here and just ahead:

Last of the expanding age groups are now the 14-15-year-olds. Every age group below that is becoming a bit smaller every year. And the peak age group grows one year older each year, of course.

Means the preteen market has been shrinking for some time. Now it's the teenage market's turn, the big spenders of the past. In a very few years, it'll be the 18-year-olds -- the car buyers and new workers -- who will begin decreasing in actual numbers.

High school entering classes will be a bit smaller this fall. In fact, they were already past their peak, on average, last year,

but population shifts obscured the turnaround in many districts.

And note that the 1946 first bumper crop of postwar babies will be turning 30 fairly soon, before its members realize it. Each year after that brings the "youth cult" nearer to its demise. Of course, "half-the-nation-under-25" never did become reality; the median age didn't drop below 27 and is now rising toward 30.

If you want to look at the detailed figures on these shifts, write directly to Govt. Printing Office, Washington, D.C. 20402. Ask for "Estimates of the Population of the U.S., by Age, Sex, and Race: 1960 to 1973," Series P-25, #519. Price is \$1.55.

The Postal Service will fry on Congress' griddle this month, when two House subcommittees begin probing the Service's record. Lawmakers have been stung to action by a string of horror tales: poor service, cronyism, management snafus and contract favoritism.

But despite the fireworks, mail service won't improve soon. A limping Postal Service will be with us for many years to come. Nor will costs stop rising, though the rate of increase may slow. Point is, Congress can't run the mails any better and knows it.

Firebrands on the Hill talk tough about taking back powers Congress gave up when it formed the semipublic corp. 3 years ago. They want rate-making powers again, control over high-level jobs, a speedup in Postal Rate Comm. work -- and PMG Klassen's head.

Klassen has been the target of bitter attack in the media. The Washington Post ran a series on Postal Service mismanagement; columnist Jack Anderson has raked Klassen for alleged impropriety. Oversight hearings will feature an array of charges & "exposures."

Yet the rhetoric won't carry votes needed for major surgery, let alone a return to an old-style P.O. under Congressional aegis. For one thing, Klassen's report on his 3-year rule, out last week, can point to some genuine accomplishments in streamlining mails.

For another, the Postal Service faces inflation, wage hikes, higher materials & fuel costs, just as all other businesses do. Moreover, Congress has just about given up on "pay as you go," is reconciled to subsidies to keep "public service" idea alive.

It adds up to high Congressional heat on the Postal Service, but no major shake-up in the system as it is presently organized. Congress will keep a closer eye on how the Service is operated, try to fine-tune the mechanism, strengthen the management team. But lawmakers aren't about to take on the job of running the show.

As for Klassen, he's beginning to shed some of his arrogance. "He's wised up and is starting to bend a little," we were told. "He loves the job, wants to keep his limo complete with phone. But we're letting him know we've got muzzle and leash waiting."

Federal Reserve policies are about to get a going over too. House Banking Comm. starts a series of major hearings, July 17, on the Fed's monetary policies, inflation, and high interest rates. It's the first full-dress review of central bank policy since '64.

Chairman Patman will press his attack on high interest rates, and he'll be joined by other committee members in both parties. Fed witnesses will be hard-pressed to explain why tight money results from and counters inflation, not the other way around.

One potentially explosive aspect of the new round of hearings: Half a dozen regional Reserve Bank presidents will be testifying, including several known to disagree sharply with Fed Chmn. Burns. Prospect of all that dirty linen is making some bankers nervous.

The post-controls wage-hike bandwagon has picked up momentum, zoomed into much higher gear faster than was generally expected. Inflation-crimped worker budgets were one reason for the new push, widely publicized, ever-bigger individual settlements, another.

Net effect is to whet employees' "big money" expectations, both union & non-union, sharply increase the incidence of strikes. Earlier hopes that pace of '74 wage increases would be tolerable, not worsen the nation's economic indigestion, are badly battered.

Whatever technical, statistical picture may emerge for '74, the thrust of union settlements in recent weeks makes this clear: Labor's drive for top dollar is hard-nosed, often successful. Chances are good that it will continue unabated into '75 & beyond.

New contracts with 10% or higher wage increases are common, and not only in construction where they've ranged from 12% to 20%. The East Coast Longshoremen's pact calls for three annual hikes, totaling 11.5%, 9% and 8%, averaging out, with fringes, to 10%+.

Telephone & copper settlements may well be in that range too, particularly when expensive cost-of-living increases are added. Major soft coal contracts expire Nov. 12; mine workers are ready, plan to use higher demands for coal as leverage for greater gains. They'll strike too, if needed, to get what they want this time.

Worse still, 1975 may well be launched with a labor crisis: The United Transportation Union, the railroad industry's largest, plans to demand a two-year wage hike of 35% in its new contract. And the bandwagon effect is spilling over into the public sector. This will mean higher taxes -- and a high rate of strikes there.

Finally, don't expect help from the gov't, not soon anyway. The Admin. won't step in until it looks as if the lid will blow.

Research Institute Staff