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WILLIAMS SAYS SHORT-TERM PERSPECTIVE CONTRIBUTES TO INDUSTRIAL PROBLEMS

SAN FRANCISCO -- A preoccupation with short-term results and lack of long range planning by both government leaders and corporate management are among the root causes of the problems that currently beset U.S. industry, Chairman Harold M. Williams said today.

His comments came in remarks prepared for delivery Friday before a luncheon of the Commonwealth Club of San Francisco.

"For more than a decade and a half, instead of formulating policies that enhance the long-term strength of the American industrial system, we have milked it in order to enjoy short-term benefits -- both social and economic," Mr. Williams said. "Although American industry has proved vital and resilient enough to sustain both solid economic growth and greatly expanded government spending and wealth transfer for some period of time, its underlying strengths are being slowly eroded..."

"Restoring the vitality and stability of the American economy is the greatest challenge we face today. It will test the intelligence, competence, and unity of our country. It will determine the quality of life for our children and our Nation's standing in world affairs."

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Chairman Williams pointed out that while government has contributed significantly to the problem through short-sighted, expedient responses to complex issues, "it is too simplistic to attribute all of our economic problems to government."

"The causes," he said, "are much more fundamental than government regulation -- or high energy costs or overpaid or lazy workers or poor tax policy, although these are all involved. Although part of the responsibility lies with forces outside the corporation, a significant share rests with the attitudes, preoccupations, and practices of many American managers, boards of directors, and shareholders."

Mr. Williams said that the behavior of many corporate managers is guided by success measurements and rewards which focus on short-term results. "The consequences are far-reaching," he added. "They deter capital investment, discourage research, and inhibit new product development and introduction of other so-called discretionary items which adversely impact current earnings...The management that is concerned about insuring this year's bonuses by inflating this year's earnings has little reason to accept several years of losses in order to introduce a new product or to break into a new market. Yet our foreign competition is more than ready to make investment decisions that may not pay off for a decade."

Boards of directors, he said, exacerbate the problem by rewarding short-term managerial success while "ignoring decisions which will have a pay-off only in the future." And investors, particularly institutional money managers, also encourage short-term thinking by seeking quick profits. "They tend," he said, "to be opportunists rather than long-term investors in the individual businesses or industries."

As a start toward changing the climate which has led to today's problems for U.S. industry, Chairman Williams suggested five initial steps which he said would help to capitalize on basic economic strengths, "by refocusing our approach to economic decision making."

The first priority, he said, must be to curb inflation, "despite the political and social costs of doing so."

Second, he said, "we have to reassess and limit the interventionist role of government in private sector decision making" The need, he explained, is to achieve a "balance" in government's role while reversing what he termed, "the corrosive effects of regulation on business's sense of responsibility."

Third, is an increase in tax incentives to productive investment. "Tax policies," he explained, "should promote modernization; new plants, equipment and technology; new research and development; and more rapid advancement of new industries." Providing such incentives for deployment or redeployment of capital, he added, "will cause the economy to be more responsive and to challenge those components that should be reduced or eliminated."

Fourth, Congress and the Internal Revenue Service should act to allow use of the LIFO (Last-In, First-Out) method of valuing inventory for tax purposes, in order to avoid taxing companies for "inventory profits" created solely as a result of inflation. "It is not constructive or healthy," he said, "for inventory profits to be taxed, requiring companies to generate the amount equivalent to the tax merely to replace the inventory. Placing barriers in the path of the use of the LIFO method is the grossest way to encourage and then tax inflation."

Finally, Chairman Williams said, a way must be found to either encourage longer-term perspective on the part of corporate shareholders, or else to reduce the importance of equity investment to corporate financing. "Perhaps," he said, "we need to unlink the income stream speculator from ownership in American business. If so, this could be accomplished by providing greater tax incentives for long-term holdings and by increasing the tax burden on short-term profits -- including short-term trading by tax-exempt institutions."

Mr. Williams expressed optimism that, "we are beginning to awaken to our economic problems and needs, and what we must do to address them.

"We are also," he said, "realizing our limitations; that we are not as omnipotent as we might at one time have believed. Yet, American's economy is still enormously potent -- the greatest in the world. I believe we are arriving at a vital consensus; that is, that the industry of this country must be revitalized. That consensus, I believe, is the critical element in rebuilding our economy, reestablishing our economic position in the world, and, most importantly, in financing our social agenda."