Senator SYMINGTON. Thank you. You stimulate me to ask one further question. The degree of our investments abroad has now become a political matter in France.

Without getting into the discussion of investment as against return, do you think it is going to become a political matter, based on your knowledge of Europe? Do you think our ownership of corporations and interest in corporations in other countries in Europe is going to become a political matter as it is today in France?

Mr. BURNS. I think it will become more of a political problem abroad, and it may become a dangerous political problem abroad if recession strikes.

Senator SYMINGTON. If what?

Mr. BURNS. If recession strikes, in the event of hard times. Our expanding businesses abroad is something that European nations will put up with, and even here and there be cheerful about, in a period of good times. But in a period of economic difficulty the political repercussions may be serious.

Senator SYMINGTON. Thank you, Mr. Chairman.

Chairman PROXMIRE. Congressman Curtis?

Representative CURTIS. Senator Symington inspired me to ask you this. If you think that industrial production is flat, do you think that we may already be in a recession?

Mr. BURNS. No, I do not think so.

Representative CURTIS. How do you interpret this industrial production, the flatness of it?

Mr. BURNS. We are passing through a phase of inventory adjustment. That will continue for a while. Sales in recent weeks have not come up to expectations. Also, not too long ago, deliveries were slow and prices were rising rapidly, so that businessmen sought to protect themselves by building inventories.

Now an effort is underway to adjust inventories, and as long as this adjustment process is underway, it is bound to be a drag on industrial production. I am hopeful that this phase will not continue for very long, but there are soft spots in the economy. In the year ahead there will be industrial slack here and there, and unemployment will rise a little. But I do not anticipate, as of today, a business recession.

Chairman PROXMIRE. I would just like to ask you finally, Dr. Burns—and this will just take a minute, you can file it for the record if you wish—to describe for us the Japanese tax reduction and how it has worked for price stability and how it has worked for budget balance. You said they have had a policy of regularly reducing taxes which you think has been excellent, and from which we can learn.

Mr. BURNS. Well, let me tell you a story. I got to know Prime Minister Ikeda. One day he put this question to me:

"What do you think the functions of a minister of finance are?"

And I said, "Well, Mr. Prime Minister, I can give you an answer to that but I think you can give me a more instructive answer. What is the answer to your own question?"

And he said, "Well, I will give you my answer. A minister of finance has one function and one function only: To cut taxes."

Of course he said that with a twinkle in his eye, but he had great experience in financial matters. Tax reduction has been carried out