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THE YEAR 1952 presents the usual contrast in events and experiences and reaffirms a moral: the world is not perfect and progress tends to come slowly. In these terms, the year's international developments have, on balance, been favorable.

Domestic economic developments in 1952 were highlighted (1) by expansion in demand, income, and employment and (2) by stability (even some weakness) in prices. The story behind this accomplishment is partly one of the promise of still more goods and services to come from expanding basic capacity, partly one of increased production, and partly one of good banking.

Prospects are that the progress of the past year will be continued.



IT IS STOCK TAKING TIME again. Time to reflect on the events of the past year and on prospects for the coming year. It seems to me that this annual custom is a good one. We tend to live too much from day to day which makes it difficult to place current events in proper perspective against the background of time past. The old adage about not seeing the forest for the trees seems to have even more truth today than when it was coined. So in this beginning-of-year article I want to step back a bit from the trees and look more closely at the forest.

The year 1952 presents the usual contrast in events and experiences . . .

How can we characterize the year 1952? Was it a "good" year? Was it "normal"? Was it "unusual"? It was certainly a year of contrasts. There were floods in January and again in April, and shortly after too much water there was too little; a drouth of fairly severe proportions (intermixed with tornadoes) moved in to plague us. The year witnessed strikes in four major industries: communications, coal, oil, and steel; it also saw the return of 195 railroads to their owners after 21 months of operation by the Army.

It was a year of technical progress in fields that ranged from national defense to household gadgets. At mid-November the Atomic Energy Commission announced that the hydrogen bomb was involved in the Eniwetok tests, and published reports suggested that, whatever its energy-source, the new explosion was far more powerful than its predecessors. At the other end of the scale, consumers were treated in 1952 to chlorophyllin in toothpastes and soap and even dog food.

It was a year of ascendancy for the distaff side of the family. England tendered sovereignty to Elizabeth II after the death of King George VI and in America women took a more active hand in the elections from local to national levels.

The contrast runs even deeper in terms of the personal events—some were happy, some sad; some were exciting, some prosaic. In addition to the occasional, disheartening floods, drouths, fires, and windstorms, there was the persistent, sobering demand on our young men for military duty in the nation's defense, and the Korean War continued.

At the same time, for many of those not called or volunteering to serve in the armed forces, there was much that was prosaic and routine about the year. Work proceeded regularly for the great bulk of the 60-odd million persons gainfully employed. Traffic in the cities got no better (in fact, it may

have become a bit worse as another four million or so new cars were added to the already large number on city streets and country highways).

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From the contrasts making up the record of 1952 a moral can be drawn and that moral has implications both for appraising the course of international and domestic developments and for fixing future national policies in those fields. The moral is that the world and we are not perfect and that we proceed to our goals by a series of forward steps interspersed with backward slips. In other words, progress in any given period of time is the net result of more steps forward than slips backward, a net of more plusses than minuses.

The implications are (1) that future goals should be set in terms of realistic recognition that perfection is not attainable and (2) that any progress toward these goals brings us closer to realization of our ideals even though we still may be far short of them. This is not to say that we should not "reach for the stars"; high goals and high ideals cause us to strive harder and to make more net progress. But it is to say that we should not be discouraged when progress falls short of perfection.

This is a lesson that most Americans know by instinct but hate to accept emotionally. The very fact that we have been reluctant to accept the lesson may have brought us more progress than otherwise would have been the case. I do not counsel passivity; I merely suggest we recognize that humanity has failings and that any failure on our part to achieve all ideals at once should not be taken as complete lack of progress or retrogression.

The past year certainly was one in which we made progress in better world relationships very slowly. We still find ourselves at war in Korea and we find aggression in many other parts of the world. Our position of world power places world responsibility on us and our moral background makes us strive for a better and more decent world. Does this mean that we must look forward to other "Koreas" in one part or another of the world? Does it mean that we must continue to dance to an aggressor's tune?

It seems to me that we must recognize that our world position is ours whether we want it or not. The fact is we have great power and the free world looks to us for leadership. Our self-interest should continue to influence our policies, but our self-interest now and in the future is bound up with the whole free world and not merely the United

States. This self-interest, our position of responsibility, and our moral background force us to meet the challenge of aggression in many parts of the world. Unfortunately any decent person or nation always is in the position of having to "meet aggression"; in the very nature of things the aggressor is the one who begins a conflict. In such a situation there are but two choices for the decent person or nation—resistance or surrender. And thus, in one sense, we must always dance to an aggressor's tune.

But when decency can be bulwarked with strength and power and the will to resist, potential aggressors become more cautious. And in such situations, when our own good will becomes apparent we have some prospects that even potential aggressors will move toward better behavior. So it may be that we must look forward to other painful years, years in which progress toward better world relationships seems very slight. But each step forward helps and we must not be discouraged because we do not run the whole distance at one time.

In these terms, the year's international developments have, on balance, been favorable.

In these realistic terms, the record of the year 1952 was good. Internationally, there is a new temper in Europe which seems to be characterized by an urge to be neither frightened to death of Russia nor abjectly dependent on "aid" from this country. It may go a long way toward pooling the resources of Europe and solving the age-old problems of diverse political nationalities there. In Formosa, the Chinese Nationalist Army has been strengthened and the Free World apparently now has a military ally of some effectiveness. In Indo-China the enervating drain on France, while not lessened, has witnessed some turn for the better. Even in Korea, where stalemate has been the word for 1952, the forces of Communism may have lost "face" with their rejection of the Indian peace proposal. Further, they have lost far more trained military personnel and more war equipment than the United Nations' forces.

In realistic appraisal then, not in terms of the perfection we wish or hope for, the international position of this nation improved in 1952. What of the domestic economy for 1952 and what is ahead for 1953?

Domestic economic developments in 1952 were highlighted (1) by expansion in demand, income, and employment . . .

To say that 1952 was an unusual year insofar as our domestic economy was concerned, is not startling news. Every year appears unique in economic

annals. But '52 had many facets. Perhaps that is why it was so impressive. Final figures for the year will doubtless set new records in terms of Gross National Product, personal income (even after taxes), consumer expenditures, "peacetime" Government expenditures and budgets, taxes paid, and many other measurements. Yet the productive processes were able to make available sufficient goods, and monetary-fiscal policies were able to restrain inflationary pressures so that wholesale prices declined, on balance, and consumer prices held fairly steady. Considerable progress was made in 1952 in adjusting through market processes, rather than through direct intervention by Government, to the situation of expanding public and consumer demand.

Let me note in broad outline the economic record of the year to establish that a measure of balance was attained under freer market conditions as well as to indicate the factors in the present situation that will significantly influence the year ahead.

The strength of activity in the fourth quarter of 1952 suggests a Gross National Product for the year of about \$345 billion—a new record. Such a figure would also represent a new peak level of physical output of goods and services in this nation—one that was about 2 per cent ahead of 1951 and nearly double that of the prewar year, 1939. Growth in the national product during 1952 reflected primarily increased Government purchases and personal consumption expenditures on services and nondurable goods.

Coincident with the new record national product, personal income reached new high levels in 1952, both before and after taxes. And, as a consequence of the record level of personal disposable income, consumer spending increased while at the same time saving remained at a high level.

. . . and (2) by stability (even some weakness) in prices.

In face of expanding Government and personal demand, prices eased off, particularly the sensitive basic commodity prices. In the year the wholesale commodity prices index recorded a 2 to 3 per cent decline continuing, at about the same rate, the easing that occurred during 1951. Consumer prices tended to level off during 1952 following greater increases in the two preceding years.

The story behind this accomplishment is partly one of the promise of still more goods and services to come from expanding basic capacity, . . .

The price behavior in face of expanding demand partly reflects growth in capacity of our basic

industries and resources in recent years. In addition to the initial expansion in capacity in the post-war period up to the outbreak of hostilities in Korea, there has been a second expansion. Steel capacity and petroleum refining capacity have been increased 15 per cent over pre-Korea levels. Electric power capacity has grown by over 30 per cent and the nation's capacity to produce aluminum has increased by over 50 per cent in this secondary expansion phase.

Along with the expansion in basic industries and resources, there has been a large investment in plant and equipment for all types of businesses. In the seven postwar years, expenditures by producers on durable equipment approximated \$140 billion and business investment in plant construction totaled close to \$40 billion. If investment in farm improvement and in farm equipment is added, total investment in the seven postwar years approximates \$200 billion. In light of this addition to the tools with which we work, it is not surprising that total output of goods and services in the nation continues to set new records year after year.

. . . partly one of increased production, . . .

Industrial production in 1952, without the losses occasioned by the steel and coal strikes, would probably have exceeded that of 1951. With these losses, annual production figures for 1952 are about one per cent less than in the previous year. Total production was running at roughly 230 in December 1952 (1935-39=100); a year ago the index was just under 220.

To properly assess the gains in production of goods and services and in capacity, a word should be said about population growth in the United States. Total population in the United States expanded from mid-1939 to mid-1952 roughly 20 per cent. In the same period the output of goods and services nearly doubled in real terms. It follows that, broadly speaking, on a per capita basis the individual was considerably better off in 1952 than in 1939.

. . . and partly one of good banking.

The other principal factor in the behavior of prices in face of expanding total demand in 1952 was monetary and credit policy which kept a fairly tight check on the creation of additional amounts of bank credit. Increasing demands for credit during the year were supplied in large part by savings in the economy and to a lesser extent by creation of more bank credit. The money supply did increase during the year reflecting mainly increased bank loans and investments. For the year the gain may

run between \$8 and \$9 billion (about 4 per cent), just a little less than in 1951. But a large part of the growth that occurred in the privately held money supply in 1952 was in time deposits (a less active component).

Basically Federal Reserve System policy throughout 1952 continued to be one of neutrality—neutral against further inflation. That policy in broad outline may be characterized as one of resisting additions to bank reserves for expansion of bank credit beyond normal economic growth and seasonal requirements. Early in the year as reserves flowed into the banking system with the return of currency from circulation and the influx of gold into the country, System action absorbed reserves. In the latter half of the year operations were directed toward supplying reserves to accommodate seasonal credit expansion. Timing of the additions to reserves was, of course, influenced by the Treasury's refunding and new borrowing program which resulted in fairly sharp increases in the reserve supply about mid-year and again in September. Throughout the year System policy was to oblige member banks to use the rediscount window in order to maintain the reserve positions required by law and to release open market operations from the burden of providing these reserves, thus enabling market interest rates to reflect the interplay of market forces with a minimum of System intervention.

In addition to the moderateness of the growth in privately held active money supply relative to the growth in total production of goods and services in real terms during the year, it should be pointed out that the rate of turnover of demand deposits, which might be said to measure after a fashion the rate of use of the active segments of the money supply, has held about steady by comparison with 1951.

Prospects are that the progress of the past year will be continued.

So much for 1952. What of the year ahead? Again in practical terms, not the unattainable perfection that we might wish for, prospects seem good for a continuation of last year's progress during the first half of 1953. It is too early, however, at this time to get a very clear picture of developments in the latter months of the year.

The major questions to be answered (and they bear heavily on district as well as national prospects) are: how much will the defense program grow and when will it peak; what will be the course of the business investment program; and will consumers continue their present spending-sav-

ing pattern? Employment and production should reach somewhat higher levels than in 1952 if defense expenditures increase about as planned. **Consumer demand, too, may be expected to rise further as high level employment at higher wage rates continues to add to personal incomes.**

Encouraging factors in the economic picture are: (1) the strength in new business investment which, according to recent estimates, will increase in the first quarter of 1953 (seasonally adjusted basis) even beyond the high level of the last quarter of 1952, and (2) the existence of a flexible monetary policy.

A development in 1952 that should have considerable influence in 1953 (and beyond) was the investigation by the Congressional Subcommittee on General Credit Control and Debt Management into central bank operations. The extensive hearings held by the Subcommittee clearly demonstrated the overwhelming weight of professional opinion that traditional monetary and credit controls should be retained and strengthened. Support for this point of view came both from teachers of money and banking and from operating bankers and financial experts. It had as collateral evidence in its favor the healthier economies in other Free World nations which had taken the, at first unpalatable, medicine prescribed by traditional central bank action in face of inflationary pressures.

It is to be hoped that the changed monetary climate that developed after the March, 1951 Treasury-System accord will continue in 1953. Monetary policy can, if properly timed, do much (although not all that is necessary) to alleviate upward pressures on prices and can also soften downward

pressures that might appear. It is a flexible tool and properly used can do much to moderate the swings of business, employment, and prices.

An unfavorable factor in the outlook is the very rapid expansion in consumer credit in the latter half of 1952. This might better have been withheld to bolster any future weakness in consumer demand for durables. If the increase should reverse itself, the effect might be to operate as a drag on consumer demand for products which should become increasingly available to the civilian sector of the economy in 1953. Finally, any marked reduction in Government spending might give trouble unless accomplished gradually enough to be balanced by an increase in civilian (largely consumer) demand reflecting the growing population of the nation.

The most heartening over-all development in 1953 would be for us to learn the lesson spelled out so clearly in the year just completed. Solutions to world problems (and even to major domestic problems) are not easy by way of the democratic processes. The answers come slowly and in compromise form. We must recognize such limitations on our actions and not lose heart or patience. We must, without giving up, be satisfied to have accomplished the major part of a desired goal. We must, without abandoning our principles, recognize that perfection is not a reliable guide in the world today. If we can profit in 1953 from this lesson, the year may be one of substantial progress toward peace throughout the world.

Problems lie ahead, of course. But with a realistic approach, especially to those in the international field, and with a firmness of purpose, we shall be able to manage them in 1953.

