

Chapter 1

Recent Economic Achievements

TEN MOMENTOUS YEARS have elapsed since passage of the Employment Act. Opinions may differ concerning the economic policies that have been pursued in this critical period in national and world affairs. Yet there is broad agreement that the American economy has met severe tests with considerable success, and that the Employment Act has provided sound guidance and serviceable procedures for promoting economic growth and stability. The past year brought fresh witness to the basic strength and resiliency of our economy, its expansive power, and its contribution to improving the living of Americans. As we look to the future, there is ground for confidence that our economic progress will continue despite occasional strains and setbacks, that means of easing strains and moderating setbacks are at hand, and that the good times we are now generally experiencing will be extended to sectors of the economy which have lagged in the advance of prosperity.

I. NEW LEVELS OF ECONOMIC ACTIVITY

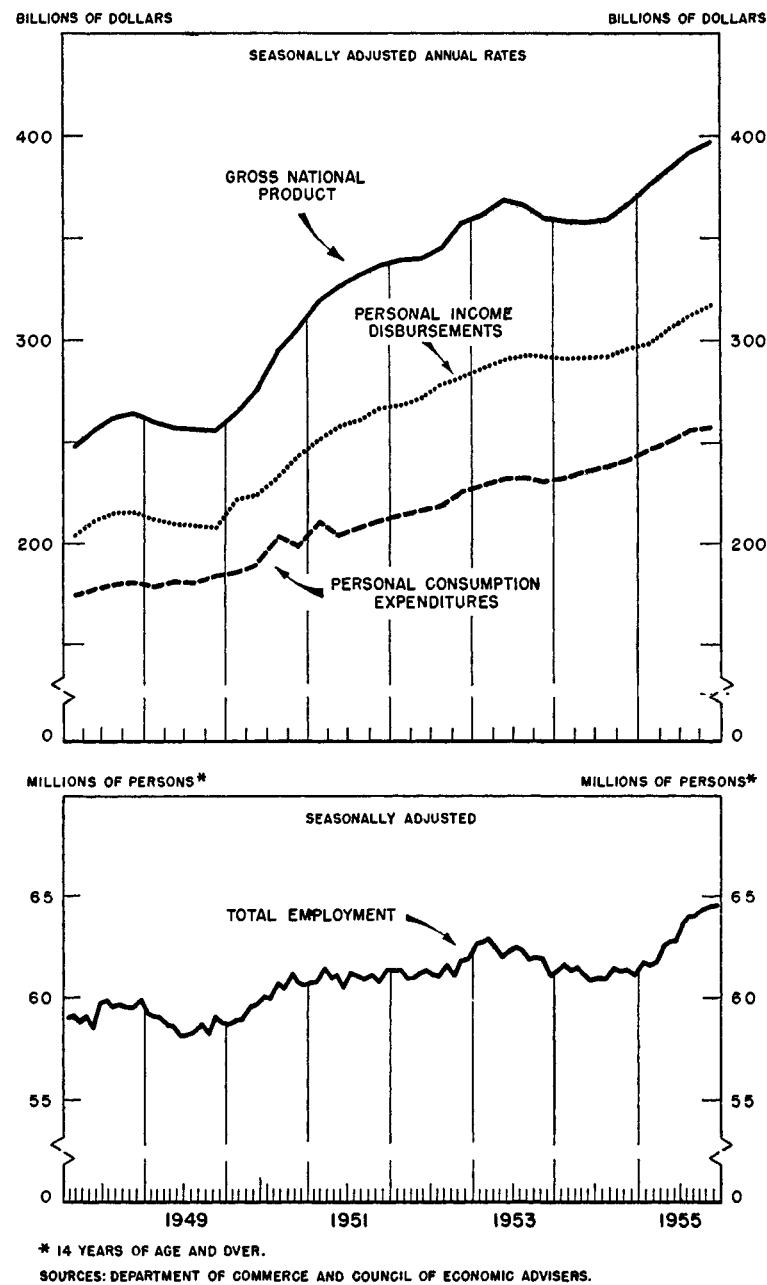
Our economy has broken through to new and higher ground, which the charts and tables of this Report delineate. We have reached the threshold of a 400 billion dollar economy, and the recent advance has been accomplished without the specious aid of price inflation.

The rapidity of recent progress is seen most clearly in aggregate measures of economic activity that allow for seasonal variations. The most comprehensive of these measures is the gross national product—that is, the dollar value of the Nation's total output of commodities and services. In the second quarter of 1954 our national product was being turned out at an annual rate of 358 billion dollars. A year later it was 385 billion, or about $7\frac{1}{2}$ percent larger. At present it is 397 billion, if not higher. The level of activity in 1953, when the rate of output was 369 billion dollars at its highest, is well behind us.

Another comprehensive measure of economic activity is civilian employment—that is, the number of men and women, outside the Armed Forces, who work in their own businesses or are employed by others. At the peak of the economic expansion which culminated in July 1953, about 62.5 million men and women were at work. A year later, employment was reduced to 61 million. Since then employment has risen rather steadily, passing

CHART 1

Measures of Economic Activity



the 62 million mark in April 1955 and reaching 64.6 million in December. Here too, even the best levels of 1953 have been surpassed.

Still another comprehensive measure of economic activity is the amount of income disbursed to people by private industry and government. In the second quarter of 1953, incomes were flowing to individuals at an annual rate of slightly over 290 billion dollars. A year later, despite some contraction in economic activity, incomes were a half billion higher. The recent expansion has brought income disbursements to an annual rate of 318 billion dollars. This increase in dollar income during the past two to three years has constituted a genuine addition to buying power, since average prices in consumer markets have been virtually steady while taxes have been lower.

Moreover, the Nation's expanding income has been shared widely. For example, the average weekly wage of manufacturing workers, exclusive of the clerical and supervisory forces, was \$79.90 last December, in contrast to \$71.50 eighteen months earlier. Farm operators on the whole have lagged behind other groups, though many farm people are sharing in the increase of employment opportunities off the farm. Labor income—that is, the sum of wages, salaries, social security benefits, and related payments—amounted to 75.0 percent of the total disbursement of individual incomes during 1954. Last year this fraction reached 75.4 percent, which is as high as it has ever been. The share of proprietors fell correspondingly, with the brunt of the decline borne by farm proprietors. The share of investors remained unchanged.

With incomes generally improving, the spending of people has mounted. Consumer expenditures, counting investments in new homes besides ordi-

TABLE 1.—*Changes in production, employment, and personal income, 1954-55*

Item	Percentage change ¹			
	1954 to 1955 ²	Second quarter 1954 to fourth quarter 1955 ²	Third quarter 1954 to fourth quarter 1955 ²	Fourth quarter 1954 to fourth quarter 1955 ²
PRODUCTION				
Gross national product (constant prices) -----	6.2	9.0	8.9	6.6
Industrial production -----	11.2	16.1	17.1	12.5
New construction (constant prices) -----	9.4	8.8	6.0	8.9
EMPLOYMENT				
Total civilian employment ³ -----	3.2	5.4	5.4	5.2
Nonagricultural employment ³ -----	3.2	5.1	5.5	4.6
Employees in nonagricultural establishments ⁴ -----	2.3	3.9	4.3	3.7
PERSONAL INCOME				
Personal income disbursements ⁵ -----	5.5	9.1	8.8	7.5
Disposable personal income ⁶ -----	5.7	9.1	8.8	7.4

¹ Quarterly changes based on seasonally adjusted data.

² Based on preliminary data for fourth quarter 1955.

³ Based on Bureau of the Census data. See Table D-17 for definition.

⁴ Based on Bureau of Labor Statistics data. See Table D-22 for definition.

⁵ Total personal income plus personal contributions for social insurance. See Table D-11.

⁶ Total personal income less personal taxes.

Sources: Department of Commerce, Board of Governors of the Federal Reserve System, Department of Labor, and Council of Economic Advisers.

TABLE 2.—*Changes in gross national product and its major components, 1954-55*

[Billions of dollars, seasonally adjusted annual rates]

Item	Fourth quarter 1955 ¹	Change to fourth quarter 1955 from—		
		Second quarter 1954	Third quarter 1954	Fourth quarter 1954
Gross national product: Total.....	397.3	39.7	38.5	30.2
Personal consumption expenditures.....	257.5	22.4	19.6	16.5
Gross private domestic fixed investment.....	67.8	8.1	7.1	6.5
Change in business inventories.....	5.0	7.7	9.9	5.6
Net foreign investment.....	.0	.3	.7	-.9
Government purchases of goods and services:				
State and local.....	31.0	3.7	2.9	2.3
Federal.....	46.0	-2.6	-1.7	.3

¹ Preliminary estimates by Council of Economic Advisers.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Department of Commerce (except as noted).

TABLE 3.—*Distribution of personal income disbursements, 1939 and 1946-55¹*

Year	Total personal income disbursements (billions of dollars) ²	Percent of total personal income disbursements			
		Labor income and transfer payments	Investment income ³	Proprietors' income	
				Farm	Nonfarm
1939.....	73.5	67.5	16.7	5.9	9.9
1946.....	180.0	69.6	10.9	7.7	11.8
1947.....	192.6	71.1	11.0	7.5	10.3
1948.....	210.9	70.7	11.1	7.9	10.2
1949.....	209.0	71.7	12.1	6.1	10.2
1950.....	229.9	71.9	12.3	5.8	10.0
1951.....	258.7	72.7	11.5	6.2	9.6
1952.....	274.9	74.1	11.3	5.2	9.3
1953.....	290.1	75.4	11.5	4.2	8.9
1954.....	292.1	75.0	12.1	4.1	8.9
1955 ⁴	308.3	75.4	12.1	3.6	8.9

¹ The distribution is calculated from the totals of the various types of income. Changes in numbers of people receiving different types of income are ignored. They should be taken into account for a more complete interpretation.² Total personal income plus personal contributions for social insurance. See Table D-11.³ Dividends, interest, and rents.⁴ Includes estimates for fourth quarter by Council of Economic Advisers.

NOTE.—Percentages will not necessarily add to 100 percent because of rounding.

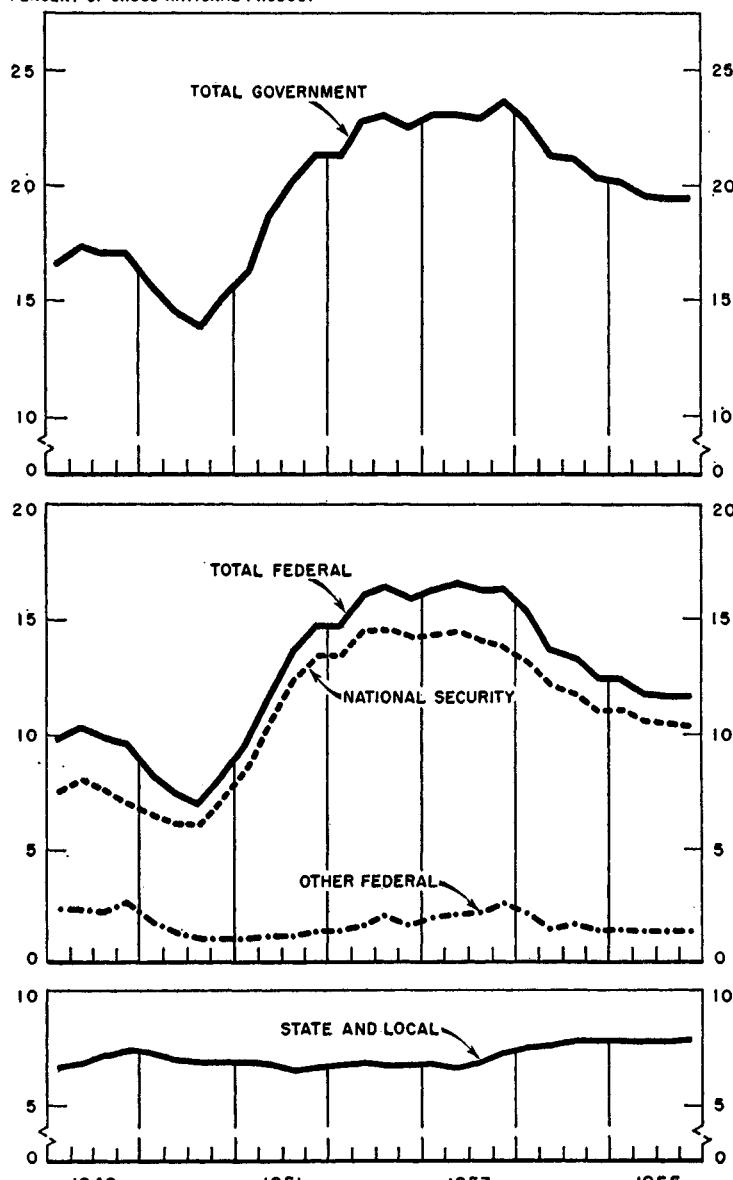
Source: Department of Commerce (except as noted).

nary outlays on consumption, increased from an annual rate of 248 billion dollars in the second quarter of 1954 to 274 billion in the final quarter of 1955. Consumers have benefited not only from the growth of the economy, but also from the extensive shift of resources to civilian uses that the close of hostilities in Korea and continued governmental economies made possible. While the annual rate of the Nation's total output has increased about 28 billion dollars since the spring of 1953, the rate of expenditure in the consumer sector has increased a full 30 billion. Thus, the physical resources and manpower released by the Federal Government

CHART 2

Government Purchases of Goods and Services

PERCENT OF GROSS NATIONAL PRODUCT*



*BASED ON SEASONALLY ADJUSTED DATA.

SOURCES: DEPARTMENT OF COMMERCE AND COUNCIL OF ECONOMIC ADVISERS.

have been used preponderantly in the production of homes, automobiles, television sets, and the thousand-and-one articles and services that flow directly to consumers and enrich the everyday lives of people. At the same time, the provision of new and improved tools of production, on which future advances in our living standards depend, has gone forward on an extensive scale.

Thus, whether we observe economic activity at the stage of production, or employment, or income disbursement, or consumer spending, we find evidence of progress and prosperity. Employment and wages are at record levels. Profits are satisfactory in most industries. Both investment and consumer spending are going forward at a good pace. Some groups of people have not, however, enjoyed a full measure of prosperity, and we shall need to keep that fact before us as we build for the future.

II. EXPANSION THROUGH FREE ENTERPRISE

Many factors have been quietly adding to the strength of our economy, and the current expansion is fundamentally an expression of their cumulating force. Among these factors are the unexpectedly large upsurge of population in the past decade, the continued growth of scientific knowledge, the onrush of technology, the rapid obsolescence of what is sometimes regarded as fixed capital, the recent development of long-range investment planning by industry, the improved control over inventories, the intensified pace of business competition, the wide diffusion of well-being among people, their insistent and growing desire to earn more and live better, the development of mass markets to match mass production, the rebuilding of Western Europe, the general recognition of government's responsibility in helping to maintain a stable prosperity, and the growing understanding that public policy must protect economic incentives if enterprise, innovation, and investment are to flourish. All these factors are and probably will continue to be basic to our progress, but several of them are especially noteworthy in the current situation.

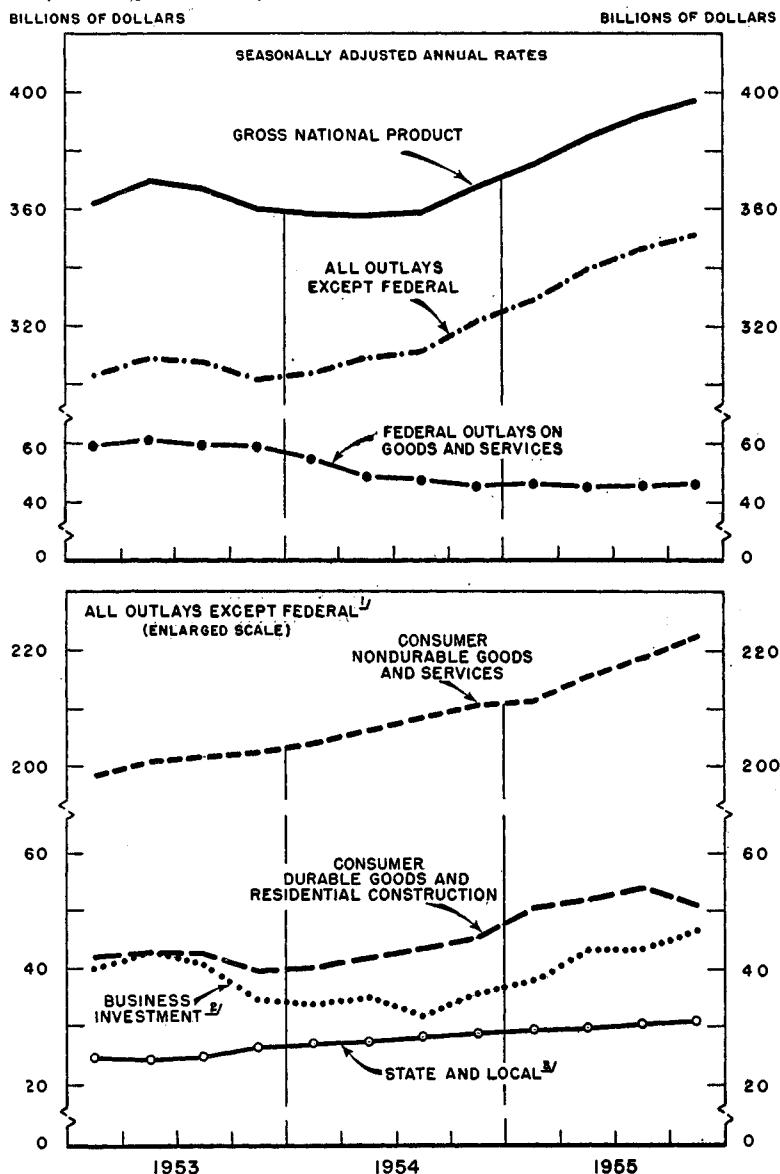
The recent expansion of our economy has occurred in an environment of growing production and trade in the Free World. Western Europe, in particular, has gained a level of economic well-being hitherto unknown on the Continent. Production and incomes have been rising rapidly. Unemployment has virtually disappeared in Great Britain, and is low everywhere except in Italy. Barriers to trade and currency movements have been reduced. Private enterprise and competitive markets are again widely respected. These improvements in conditions abroad have reinforced our prosperity at home.

The Federal Government has played a constructive part in the prosperity that the American people are now experiencing so widely. It has not, however, sought to maintain good times by expanding our already huge governmental outlays or by permitting the value of money to depreciate. Recognizing that these alluring short cuts to a high level of economic

CHART 3

Gross National Product

Major Categories of Expenditure

¹NET FOREIGN INVESTMENT NOT SHOWN.²NONRESIDENTIAL CONSTRUCTION, PRODUCERS' DURABLE EQUIPMENT,³AND CHANGE IN BUSINESS INVENTORIES.

PURCHASES OF GOODS AND SERVICES.

SOURCES: DEPARTMENT OF COMMERCE AND COUNCIL OF ECONOMIC ADVISERS.

activity have all too often brought disaster to nations, our governmental policies have concentrated on building an economic environment that favors an orderly expansion of private activities.

The demands of modern life and the continuing threat of Communist aggression require a much higher level of taxes and a larger role of Government in economic affairs than suited earlier generations. This very fact imposes a responsibility on the Government to pursue policies that will help to keep the private economy strong and growing. The Administration has sought, in cooperation with the Congress, to discharge its responsibility through a series of closely related policies. First, by removing direct controls over prices and wages, which had outlived their usefulness. Second, by preserving an actively competitive environment and assisting new and small businesses. Third, by curtailing governmental activities that could be handled as well or better by private enterprise. Fourth, by restricting public expenditures, and yet adding to the country's defensive strength and its stock of public assets, especially highways, hospitals, and educational facilities. Fifth, by lightening the burden of taxes imposed on individuals and businesses. Sixth, by extending the ties of trade and investment with other nations of the Free World. Seventh, by tempering the impact of unemployment, old age, illness, and blighted neighborhoods on people, yet not impairing self-reliance. Eighth, by extending the automatic workings of our fiscal system that tend to offset or cushion changes in income arising from changes in economic activity. Ninth, by attacking fundamental causes of weakness in the farm situation. Tenth, by acting promptly and resolutely when either recessionary or inflationary influences in the general economy became evident.

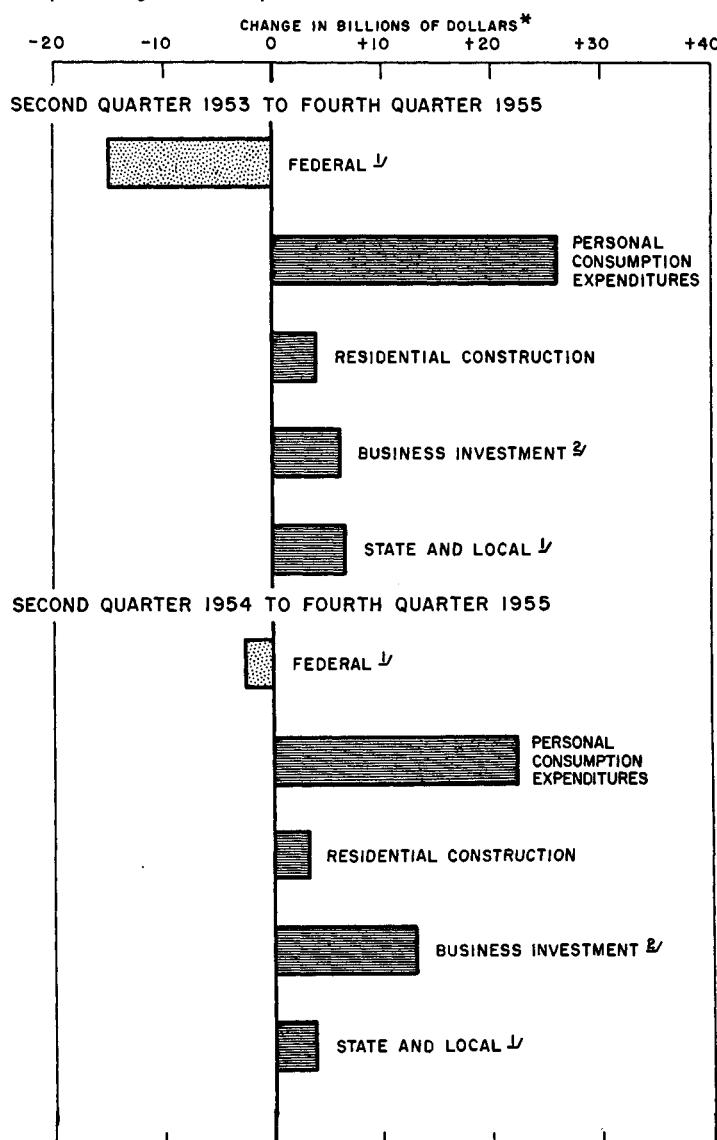
By recognizing the vital importance in our times both of free enterprise and of a sense of economic security, these directions of governmental policy have served to enlarge the horizons of businessmen, workers, investors, and consumers, and have stimulated people to bolder economic actions and undertakings. This, in essence, has been the Government's role in the recent expansion.

The expansion itself has been carried through by private citizens, who freely applied their energies and resources to bettering themselves, their families, and their communities. Between the second quarter of 1954 and the last quarter of 1955, the annual rate of Federal spending on goods and services was reduced by about 3 billion dollars. In the meantime, the rate of consumer spending, apart from new homes, increased by 22 billion dollars, the rate of residential construction 3 billion, the rate of business investment 13 billion, while the rate of State and local spending rose another 4 billion. If we go back to 1953, the reduced reliance of our economy on Federal expenditures becomes still clearer. Between the second quarter of that year and the final quarter of 1955, the annual rate of Federal spending on goods and services declined by 15 billion dollars, while spending by the rest of the economic community increased by 43 billion. Thus, in the short span of

CHART 4

Changes in Gross National Product

Major Categories of Expenditure



* SEASONALLY ADJUSTED ANNUAL RATES.

1/ PURCHASES OF GOODS AND SERVICES.

2/ NONRESIDENTIAL CONSTRUCTION, PRODUCERS' DURABLE EQUIPMENT, CHANGE IN BUSINESS INVENTORIES, AND NET FOREIGN INVESTMENT.

SOURCES: DEPARTMENT OF COMMERCE AND COUNCIL OF ECONOMIC ADVISERS.

two and a half years a substantial transformation of our economy has occurred. On an increasing scale, Americans have taken the initiative to make jobs for one another, instead of waiting for the Federal Government to do it for them.

This is the well-tested process that has brought enduring results throughout our history. Americans have long been noted for a combination of characteristics that make for economic growth. These include a strong devotion to family life; a deep-seated, widespread urge to improve one's position, his possessions, and his children's opportunities; a drive to work and save to these ends; steady working habits; an ambition to excel; and the cherishing of freedom, independence, and individual initiative. To achieve what we regard as a more abundant life, we are willing to work, plan, venture, spend, and save, far beyond the limits that mere subsistence or comfortable existence would require. The mainspring of our economy consists in these qualities of the American people. Given free institutions and a favorable physical environment, an expanding economy is the natural fruit of the enterprise of such a people.

III. ROLE OF GOVERNMENT IN MODERATING ECONOMIC FLUCTUATIONS

It is essential to recognize, however, that the very qualities of Americans which largely account for the expansive power of our economy also make the process of growth irregular. The flow of money against goods need not match precisely the rate at which goods leave workshops for markets. Hence, an imbalance between production and sales is occasionally bound to occur and give rise to inventory adjustments, which in turn may lead to reduced spending for consumption and capital expansion. Moreover, the confidence that generates prosperity may turn into overconfidence and set off an inflationary boom, just as the normal caution that preserves balanced growth may degenerate into pessimism and lead to depression. Experience with these tendencies over many years has gradually led the American people to broaden their concept of government. Today, we believe as strongly in economic progress through free and competitive enterprise as our fathers did, and we resent as they did any unnecessary intrusion of Government into private affairs. But we have also come to believe that progress need not proceed as irregularly as in the past, and that the Federal Government has the capacity to moderate economic fluctuations without becoming a dominant factor in our economy.

Although governmental efforts to curb inflationary or recessionary influences have not always proved successful, knowledge of how business fluctuations arise and of ways of dealing with them is steadily improving. The events of the past three years have been heartening. We have seen that our economy can continue to grow with a minimum of instability of employment and without any appreciable change in the value of money. We have seen that wise and timely actions by the Government can help sustain a healthy expansion of economic activity and prevent it from turning

into an inflationary boom; that soundly conceived and well-timed governmental policies, aided by private stabilizing influences, can prevent a minor contraction from turning into a spiraling depression; and that neither direct controls over prices and wages, nor huge public spending programs, are needed to achieve a reasonably stable prosperity. The recent success of governmental policies in moderating economic fluctuations, and even more in indicating that this goal may be reached in ways that enlarge the scope of individual enterprise, carries a promise of great significance for our own future and that of other nations.

IV. THE CHALLENGE OF PROSPERITY

The underlying goal of Americans is better living in all of its aspects, not merely indefinite increase in per capita income and possessions. The cherished intangible components include improved health of mind and body; more wholesome family life; availability of useful work, full-time or part-time; lessened drudgery, severity, and monotony of labor; more leisure and increased opportunities for learning; greater opportunity for all and lessening of indefensible disparities; and larger protection against the hazards of life. Gains in all of these respects profoundly improve the quality of living, to which we attach high importance. The notable advances registered in the past have been in part a by-product of our economic progress, but in part also a response to major innovations by private groups and all levels of our Government.

A period of general prosperity, such as we have recently been experiencing, presents a challenge to an intelligent citizenry. How may the good times be maintained and extended into the future? How may our greater material wealth help us to improve the quality of living? How may conditions be developed that will help the less prosperous groups to join in the economic advance? These are difficult questions, but no thoughtful individual can escape them. Nor can the Federal Government do so, in view of its heavy responsibilities under the Employment Act and the Nation's leadership in the Free World. Later chapters will recount how the Government has grappled with these issues during the past year, and how the Administration proposes to deal with them over the coming months. But a few general observations are pertinent here.

To meet the challenge of prosperity, we must above all things avoid complacency. The continuance of general prosperity cannot be taken for granted. In a high-level economy like ours, neither the threat of inflation nor the threat of recession can ever be very distant. We live in a world in which economic changes, both domestic and foreign, are continuous and many. If our economy is to advance firmly on the narrow road that separates recession from inflation, the Federal Government must pursue monetary, fiscal, and housekeeping policies with skill and circumspection. We must be alert to changes in economic conditions and be ready to adapt

our policies promptly to them. The only rigid rule that we can afford to admit to our minds is the principle that the best way to fight a recession is to try to prevent it from occurring. That principle has of late ruled, and it must continue to rule, our economic policies.

We must also take every practicable step to strengthen the foundations of future prosperity. The incentives to work, to save, to invest, and to venture must be protected and enhanced. Monopolistic tendencies must be curbed whenever they appear. Sound improvement of our systems of social insurance must be continued. The encouragement of home ownership and the clearance of slums must be extended. Maladjustments in agriculture that find expression in overproduction and reduced farm incomes must be corrected. Those communities which, even in these good times, continue to be burdened with extensive unemployment must be aided. Remaining pockets of relative poverty, urban as well as rural, must be reduced. Provision for schools, highways, and medical facilities must be substantially increased. Action in these vital areas has lagged sadly behind our accumulating needs. If economic growth is not to be seriously retarded in the future, we must—with due regard to the need for staying within the limits of Federal revenues—strive to make up for the neglects of the past.

Finally, we must never lose sight of the fact that the prosperity of our country is heavily dependent upon the international economic and political environment and upon what we do in cooperation with other nations to improve that environment. Unstable markets, balance of payments crises, and economic fluctuations abroad can seriously complicate the task of maintaining stability at home. Moreover, the continued growth of our production is in no small degree dependent upon an expanding resource base in friendly countries and upon an expanding world market for the products of our factories, farms, and mines. A program for maximum growth in America requires, therefore, intensified efforts to reduce barriers to the international flow of goods, capital, and business enterprise, as well as the maintenance of active cooperation with other nations in dealing with problems which hamper their progress.