

## Chapter 2

### Economic Growth and Improvement, 1953-56

THE ECONOMIC REPORT transmitted to the Congress in January 1954 called attention to the opportunity afforded by the ending of the conflict in Korea to turn the productive capacity of the Nation increasingly to peaceful purposes and thereby to undertake a sustained improvement in living standards. It also set forth the main lines along which the Federal Government proposed to move toward this goal and to seek to fulfill its mandate under the Employment Act of 1946 to promote maximum employment, production, and purchasing power. Although the Economic Reports of the past few years have described the improvements in living that have been achieved and the policies followed to promote stable economic growth, it may be useful to review briefly the developments of the four years, 1953-56. This review will provide both a record of achievement in a free economy and guidance for the years ahead.

The period was one of growth in our own economy and in the economies of other free nations, and witnessed clear gains in the well-being of the American people. The course of expansion was not entirely even, however, and the capacity of our economy to adapt to extensive, and in some cases sharp, changes was repeatedly tested. The agricultural sector faced especially difficult problems of adjustment. The rapidly changing conditions in the economy as a whole, as well as in particular sectors, called for a high degree of flexibility in Government policies affecting economic growth and stability. Successive sections of this chapter sketch this record of economic growth, of improvement in well-being, and of adjustment to economic change.

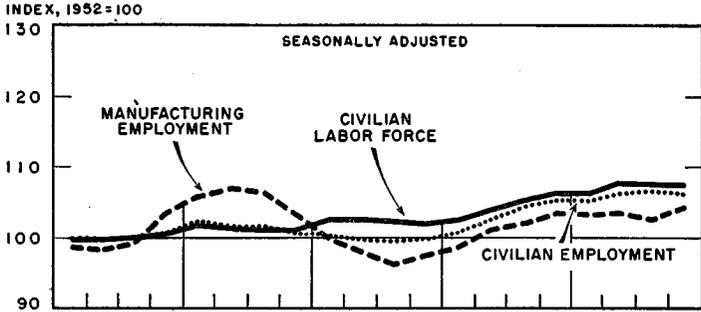
#### GROWTH OF ECONOMIC ACTIVITY

Increasing numbers of our people have been seeking and finding employment during the past four years. The number of persons in the labor force in 1956, including those in the military services, was almost 4 million more than in 1952; and the decline of 750,000 in the armed forces in this period released an additional number for civilian employment (Chart 1). During 1954 the growth in the labor force was relatively slow; but in the past two years the rate of growth was unusually rapid. Along with this increase in the labor force, the number of persons employed rose by about 4 million. Although unemployment increased during 1953-54

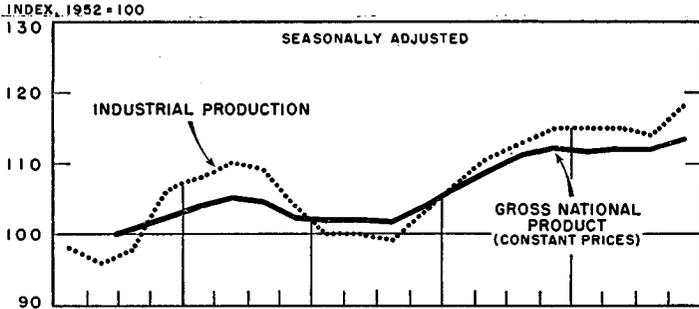
CHART 1

# Economic Expansion, 1952-56

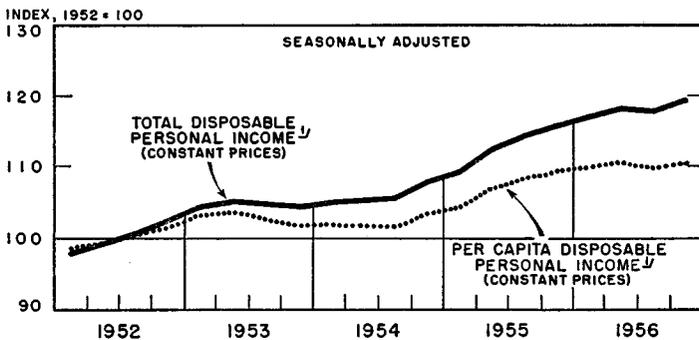
Civilian labor force and employment increased.



There was a larger increase in the output of goods and services . . .



. . . and in disposable personal income.



∩ PERSONAL INCOME LESS PERSONAL TAXES.

SOURCES: DEPARTMENT OF LABOR, DEPARTMENT OF COMMERCE, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, AND COUNCIL OF ECONOMIC ADVISERS.

contraction of economic activity, it has since fallen to less than 4 percent of the labor force, and a significant number of the unemployed are persons newly drawn into the labor force who are counted as unemployed while seeking work.

The employment of growing numbers of persons has been accompanied by increases in the efficiency of our productive system. The output of goods and services expanded in 1956 to the new high figure of \$412 billion. Expressed in dollars of constant purchasing power, this is 12.5 percent more than was produced in 1952. With an employment increase of 6 percent during these years and a modest decline in average working hours, the gain in output reflects a sizable improvement in productivity. However, changes in productivity have historically been uneven from year to year, and the last four years have been no exception. In the expansion of early 1953, and again in the recovery of 1955, productivity gains were quite large. On the other hand, advances in productivity were small during the 1953-54 contraction and again in 1956.

Since purchases of military goods by the Federal Government were reduced sharply in the four-year period, over-all measures of the increase in national output do not fully reveal the rise in the flow of goods and services available for civilian use (Chart 2). The 1953-54 adjustment to a lower level of defense expenditures made it possible to devote an increasing proportion of the economy's resources to the output of goods and services for consumers, to the enlargement of productive capacity, and to the needs of State and local governments. While total gross national product in constant dollars rose about 12.5 percent, consumer expenditures, private investment outlays, and State and local purchases of goods and services increased substantially more. Together, these three sectors of our economy accounted for 88 percent of all purchases of goods and services in 1956, compared with 84 percent in 1952.

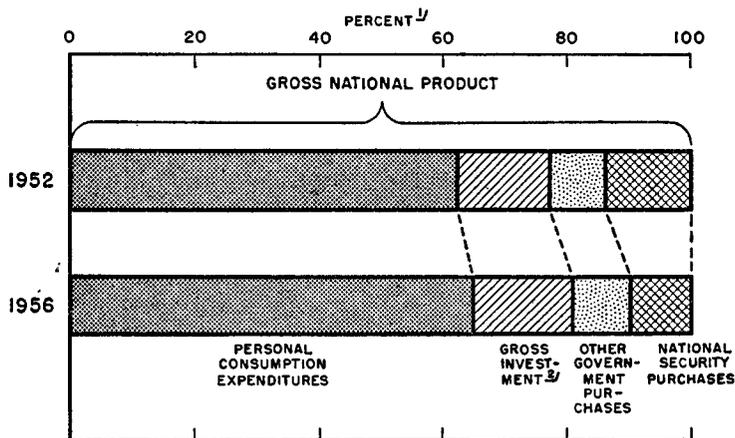
The Nation's productive plant and equipment have been notably expanded and improved. Since 1952, business firms and farmers have spent over \$150 billion to increase capacity and replace worn out and obsolete facilities. The growth in the physical stock of equipment appears to have been especially large, perhaps as much as one-quarter. Also, important advances in technology have improved the quality and efficiency of plant and equipment. These investment outlays contain the promise of greater national output and better living in the years ahead.

As would be expected in a growing economy in which production techniques and patterns of demand are continually changing, not all industries shared equally in the expansion. For some industries with a strong growth component, notably chemicals, aluminum, and electric power, output increased throughout the period; production in certain other industries, whose output fell substantially in 1954, advanced rapidly in both 1955 and 1956; and the output of still other industries, such as automobiles and home building, which had been particularly high in 1955, declined in 1956.

CHART 2

## Change in Composition of Output, 1952 to 1956

Lower national security purchases allowed a larger proportion of output to be devoted to private consumption and investment.



<sup>1</sup> BASED ON DATA IN 1956 PRICES.

<sup>2</sup> GROSS PRIVATE DOMESTIC INVESTMENT AND NET FOREIGN INVESTMENT.

SOURCES: DEPARTMENT OF COMMERCE AND COUNCIL OF ECONOMIC ADVISERS.

The growth of income received by individuals is another indication of the increased economic activity of the last four years. Personal income disbursed to individuals rose from \$276 billion in 1952 to \$331 billion in 1956. Despite some contraction in the flow of incomes in the latter part of 1953 and early 1954, the total for each year during the four-year period was higher than for the preceding one. Personal incomes after taxes also rose rapidly, reflecting both the increase in incomes received and the 1954 reduction in personal tax rates.

This expansion resulted in a clear improvement in income per person. The 1956 average weekly earnings of production workers in manufacturing, for example, were \$80.13, a rise of \$12.16 a week over 1952. Even after allowance for the 2.3 percent increase in consumer prices which occurred between 1952 and 1956, the gain in weekly earnings amounted to over \$10.50. Not only did those who work for wages and salaries make substantial absolute gains during the period; their share of income also rose. Labor income—that is, the sum of wages, salaries, social security benefits, and related payments—constituted 75.8 percent of total personal incomes disbursed in 1956, compared with 73.8 percent in 1952.

The income of business proprietors and professional people also expanded. Farm income continued to decline through 1955, but some improvement took place in 1956. Dividend payments increased each year, although corporate profits fluctuated more than other forms of income.

This record of expanding employment, production, and incomes shows that we do well to place primary reliance for economic growth and improvement on competitive enterprise. It demonstrates anew that such an economy, operating in an environment that provides the incentives needed for the full utilization and improvement of economic resources, has vast potentialities for advancement of material welfare. The competitive economy's growing productiveness is based on the fact that it provides increasing amounts of capital for the use of each worker and encourages the maximum use of the energies and talents of the individual. Through the organizing influence and discipline of competitive markets, these powerful forces are employed to meet the needs and preferences of the consumer as expressed in the market place. And all this is accomplished within a framework of free institutions and individual choice. Essentially, the record reveals the opportunity that a free economy affords for the betterment of well-being.

The period has also been one of improvement in the economies of other nations of the free world. Vigorous economic growth has characterized the industrialized countries of Western Europe and also Canada and Japan. In each of these, the flow of goods and services to consumers and the additions made to productive plant and equipment have increased materially. Substantial progress has also been made in many of the nations that are economically less developed, although the rate of growth has varied widely among them.

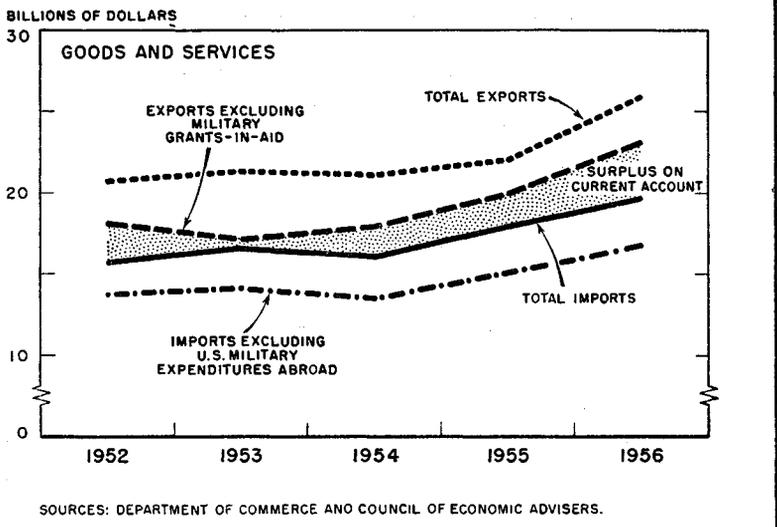
A remarkable strengthening of international trade and finance has taken place. Trade among the nations of the free world rose from less than \$74 billion in 1952 to approximately \$93 billion in 1956. Responding to economic expansion at home and abroad and to the gradual relaxation of trade controls, our foreign trade and investment have increased markedly; both exports and imports were at record levels in 1956. Following a decline for a short time after the termination of the Korean conflict, nonmilitary exports of goods and services increased during 1954, thus helping to sustain business activity in this country. The expansion of these exports was extended in 1955 and 1956, in the latter year reaching about \$23 billion, approximately 28 percent more than in 1952. Imports of goods and services followed the trend of domestic business activity more closely, falling in 1954 and rising in the next two years. In 1956, they totaled almost \$20 billion, some 25 percent above their total four years earlier (Chart 3).

Although Government grants and credits still financed a sizable amount of our exports, increasing reliance was placed on private trade and investment during the past four years. Net private investment abroad of United States funds was at a new high in 1956. While expanding their purchases of goods and services from the United States, other countries have added about \$7 billion to their gold and dollar reserves since 1952. The increase in these reserves, which were severely depleted during and after World War II, is traceable largely to our imports of goods and services and to our mili-

CHART 3

## U. S. Balance of Payments on Current Account, 1952-56

U. S. foreign trade reflected economic expansion at home and abroad.



tary expenditures abroad. Further expansion of nonmilitary exports will continue to depend, fundamentally, upon the volume of our imports and the amount of private United States investment in foreign countries.

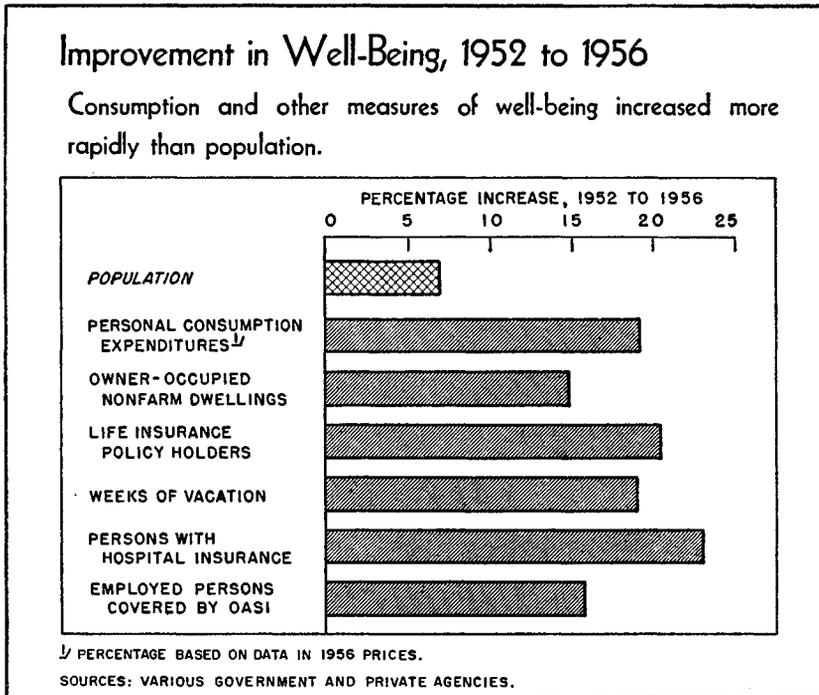
The sharpest expansion in our exports has been in shipments to industrialized countries with high per capita incomes, which are often competitive with us, and to certain less developed countries in which the rate of economic expansion has recently been high. This fact strongly suggests the economic advantage to this country which can accrue from economic development abroad. When trade is conducted on a nondiscriminatory, multilateral basis, it is natural to expect that prosperity elsewhere will be reflected in an increased demand for the products of our farms, mines, and factories. Such has been the case in the last four years.

### IMPROVEMENT IN LEVEL OF LIVING

The rise in real incomes which was described above reached to all income levels. Whereas 27.1 million families, or 54 percent of the total, had incomes before taxes of more than \$4,000 in 1952, 30.6 million, or 59 percent of the total, had incomes of this amount in 1955. Data are not yet available on the distribution of incomes in 1956, but other evidence indicates

that the improvement continued. Since the cost of living rose only slightly over this period, most of the increase in money incomes represented an actual gain in well-being. Expressed in dollars of constant purchasing power, per capita personal income rose 10 percent after taxes and consumer expenditures 11 percent. Some indicators of the increase and diffusion of well-being in recent years are given in Chart 4 and Appendix D.

CHART 4



Striking achievements were made in housing. The 5 million dwelling units that were constructed exceeded the number built in any other four-year period and substantially enlarged the housing stock available to the American people. There were improvements in the size, design, and equipment of new homes, and sizable outlays for repairs and alterations added to the comfort and convenience of existing homes. A growing proportion of our homes were owner occupied—60 percent in 1956, compared with 55 percent in 1950.

During the four-year period, 24.5 million new automobiles were bought, and, even though large numbers of old cars were scrapped, the number of automobiles increased 11 million. Consumers also purchased large quantities of other durable goods—especially household appliances.

The increase in the ownership of homes and of consumer durable goods entailed a large increase in debt. Short- and intermediate-term consumer

debt increased \$15 billion, or 53 percent, from December 1952 to December 1956; home mortgage debt rose \$40 billion, or 69 percent. On the other hand, American families made large additions to their financial assets. Consumer holdings of bank deposits, savings bonds, and other selected financial assets were about one-fourth higher in 1956 than in 1952. Provisions for personal security were also improved by large increases in the number of persons covered by life and medical insurance and in the degree of protection afforded, as well as by governmental social security programs.

Participation in and support of religious, cultural, educational, and civic activities are more extensive than ever before. Church membership has increased markedly, and recent years have witnessed a sharp rise in the construction of church and related buildings. Outlays for library construction have been large, and book circulation and publication have exceeded any previous records. Greatly increased amounts of resources are being devoted to education at all levels. Public and private outlays on construction of educational buildings totaled \$3.1 billion in 1956, a rise of 57 percent in four years; and private grants and gifts for higher education are estimated to have increased about two-thirds.

This is a gratifying record of the improvement in the level of living that can be achieved through a vigorous competitive economic system. In particular, it shows the capacity of such a system to bring about a widespread participation in the benefits of economic expansion. But much room for improvement remains.

Although average incomes have increased substantially, the incomes of many Americans are still inadequate. Some in the low-income group are older persons, beyond the employable age; others suffer from illness or are handicapped by lack of adequate training, education, or knowledge of better job opportunities. Also, some areas have failed to share in the general economic expansion; certain communities have had relatively high levels of unemployment over protracted periods. Considerable progress was made in the last four years, however, under various private and governmental programs aimed at meeting these problems and at strengthening personal security. Proposals are put forward in Chapter 4 for broadening and strengthening these activities of Government.

#### PROBLEMS OF AGRICULTURAL ADJUSTMENT

The basic problem of the agricultural sector of the economy in recent years has been a persistent tendency for production to outrun commercial demands. In response to a rapidly advancing technology and remunerative price supports, farm output has risen since 1952 (Chart 5). Consumption and exports have failed to increase correspondingly. Reflecting these facts, and the sharp decline in exports in 1952-53, stocks of surplus farm products have accumulated. Before the 1954 harvest could be affected by acreage

allotments, carry-overs of wheat and cotton had risen to about 3½ times those of 1952 and the carry-over of corn had nearly doubled (see Chart 11, p. 31). Partly as a by-product of large cotton crops, stocks of food fats also nearly doubled. Substantial shifts were subsequently made in crop acreages—predominantly out of wheat and cotton—but large parts of this cropland were diverted to the production of feed grains, with the result that markets for a widening range of commodities have been threatened by excessive supplies.

These developments in output and stocks have been reflected in farm prices and income. For nearly five years the index of prices received by farmers moved persistently downward from the peak reached in February 1951 under the inflationary impact of the Korean conflict. But because the volume of farm marketings increased, realized gross farm income in 1956 was only 1 percent below the high level attained in 1947, before agricultural production abroad had recovered from wartime dislocation. However, the newer techniques of production and a delayed rise in prices paid by farmers raised farm expenses more than one-quarter in the interim, and net farm income was accordingly reduced substantially.

These conditions have naturally tended to bring about an extensive and difficult transition in agriculture. In general, adjustments have been in the direction of a better balanced farm economy. Most of the decline in the total number of farms has been among units that yield inadequate income to their operators; the number of moderate-sized family farms has increased; and the proportion of farms owned in whole or in part by the farm operator has risen. The value of farm assets has increased in recent years, and farmers' equities are at a record high level. Although total farm debt has increased every year since 1946, the mortgage debt component is now only slightly higher in relation to the value of farm real estate than in the most favorable years on record. Debt repayments have proceeded largely on schedule, and foreclosure rates are low. Farm families have added to their holdings of consumer durable goods at a rapid rate and, as usual, with less resort to consumer credit than is customary among urban families. In short, agriculture as a whole has made gains, though its income is not as high as in years of exceptional war and postwar demands.

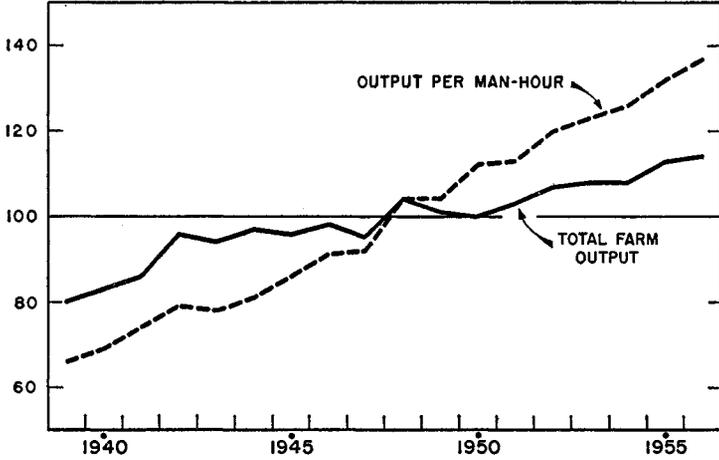
Forces and conditions originating in the nonfarm sectors of the economy have to some extent contributed to agriculture's adjustment problems. As individual incomes rise, certain major farm products, such as wheat and cotton, meet severe competition from other desired consumer goods. Jointly with increases in efficiency, these demand factors have tended historically to reduce agriculture's proportion of employment, population, and national income. And conditions in the nonfarm economy have a direct impact on farm costs; for example, the prices of tractors and farm machinery reflect the pressure of general industrial demand, and the price and supply of fertilizers respond more to factors at work in the chemical industry than to those originating in farming.

CHART 5

# Agricultural Production and Technology Since Prewar

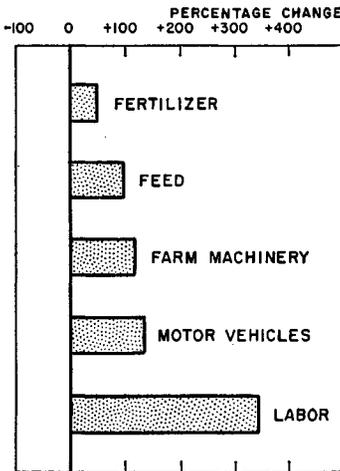
Farm output and productivity have risen to record levels.

INDEX, 1947-49 = 100

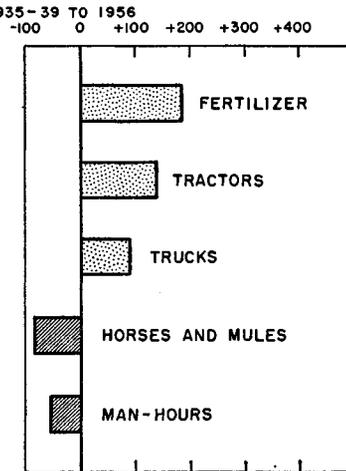


Changed cost relationships have influenced the combinations of resources used in farm production.

CHANGES IN PRICES OF SELECTED RESOURCES



CHANGES IN USE OF SELECTED RESOURCES



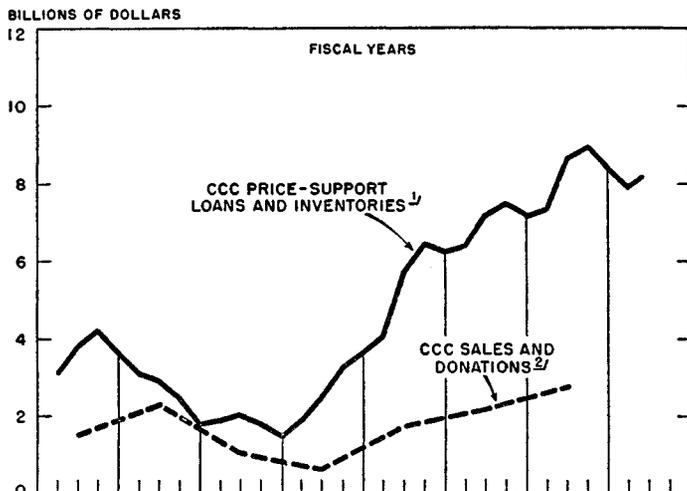
✓ PER UNIT OF OUTPUT.

SOURCE: DEPARTMENT OF AGRICULTURE.

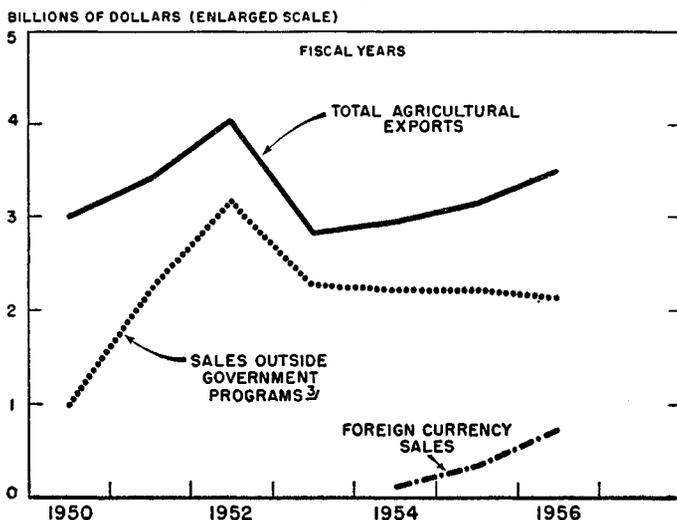
CHART 6

## CCC Operations and Agricultural Exports, 1950-57

Output in excess of market requirements has increased Commodity Credit Corporation price-support loans and inventories.



Agricultural exports declined sharply in 1952-53 but have since increased under Government programs.



<sup>1/</sup> END OF QUARTER, EXCEPT LATEST DATA PLOTTED, WHICH ARE FOR NOVEMBER 30, 1956.

<sup>2/</sup> AT COST; FISCAL YEAR TOTALS.

<sup>3/</sup> INCLUDES DOLLAR SALES AT SUBSIDIZED EXPORT PRICES.

SOURCE: DEPARTMENT OF AGRICULTURE.

Some trends in the nonfarm sectors of the economy have operated distinctly in agriculture's favor. Increasing population and rising incomes have sustained total domestic consumption of farm products. Higher real incomes have increased the demand for livestock products, and industrial technology has created new market opportunities for the vegetable oilseeds. General prosperity has widened job opportunities for farm people outside agriculture, and farm earnings have been increasingly supplemented by off-farm employment.

In the immediate situation, however, efforts to stabilize farm income have led to Government activities on a broad scale. These have involved not only substantial public expenditures but also serious encroachment on the private marketing system. Net budget expenditures on behalf of agriculture, which are an indication of the immediate fiscal burden though not necessarily of the ultimate cost to the Treasury, now account for almost one-quarter of the Federal budget excluding national security expenditures and interest on the public debt. The six so-called "basic" commodities were supported at 90 percent of parity through 1954, and dairy products likewise until early in that year. Even under the somewhat more flexible scale in effect since then, support levels are frequently the most important single factor in determining the prices prevailing in a number of commodity markets. The Commodity Credit Corporation has become a major operating unit in our economy, with a statutory borrowing authority of \$14.5 billion and an outstanding debt of more than \$11 billion to the United States Treasury. Its investment in price-support loans and inventories increased nearly \$7 billion between June 30, 1952 and June 30, 1956, despite the disposal of commodities valued at about the same amount. Among shipments overseas, there has been a marked increase in commodities moving under Government programs concurrently with a decline in unsubsidized, commercial exports (Chart 6). The implications of these measures for agriculture and for the economy in general emphasize the importance for sustainable agricultural improvement of the policy objectives of the last four years—wider freedom for our commercial farmers in managing their own enterprises, appropriate shifts in the use of the Nation's cropland, an improved system of price supports, and research into new products, markets, and uses.

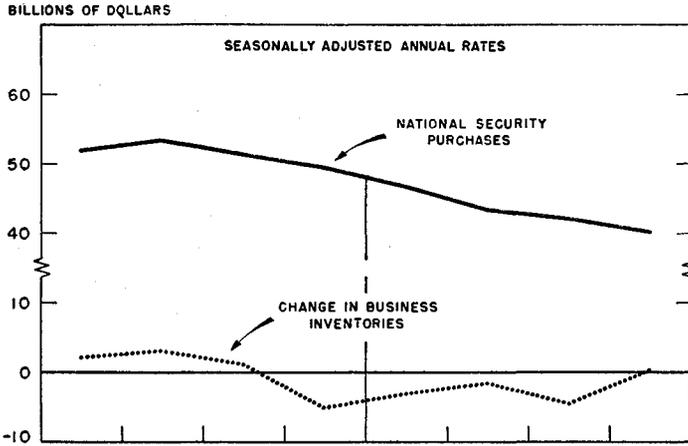
#### ADJUSTMENT TO ECONOMIC CHANGE

The last four years have demonstrated the ability of the Nation's private economy to expand, to provide an increasing number of jobs, and to raise levels of living. Also, they have tested the capacity of our economy to adjust to large changes in the pattern of demand and the effectiveness of public policies designed to promote growth and stability. Because the stabilization problem is continually changing in a dynamic economy, policies aimed at promoting stable growth must be flexible. This fact was well illustrated in the last four years, in which the problem shifted from one of helping to

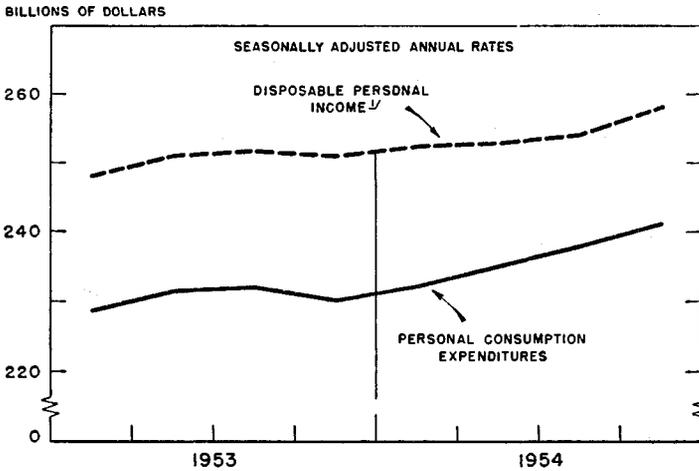
CHART 7

## Economic Adjustments, 1953-54

Defense expenditures and inventory investment were sharply reduced . . .



. . . but tax reductions and social security payments helped maintain consumer income and spending.

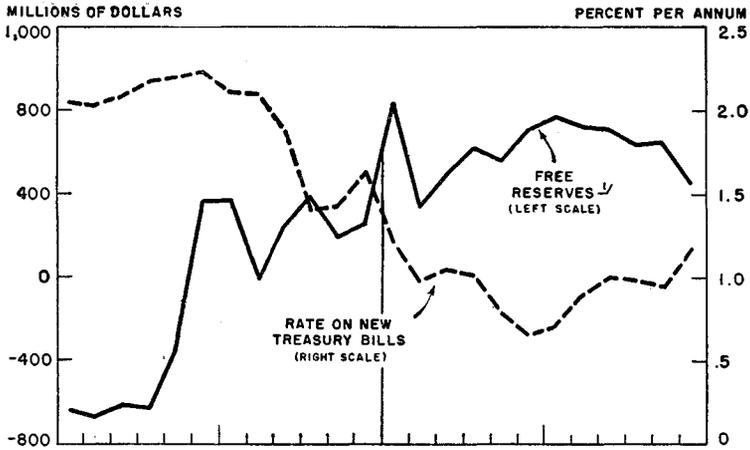


∩ PERSONAL INCOME LESS PERSONAL TAXES.

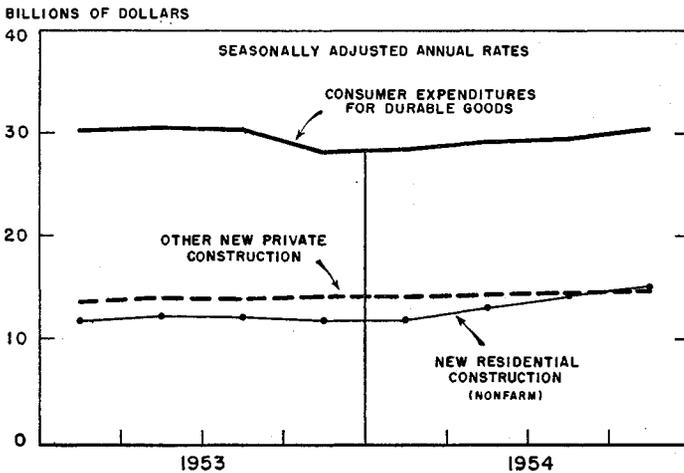
SOURCE: DEPARTMENT OF COMMERCE.

# Economic Adjustments, 1953-54

Credit policy was eased . . .



. . . which helped sustain expenditures on new construction and consumer durable goods in 1954.



∩ MEMBER BANK EXCESS RESERVES LESS BORROWINGS FROM FEDERAL RESERVE BANKS; AVERAGES OF DAILY FIGURES.

SOURCES: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, TREASURY DEPARTMENT, AND DEPARTMENT OF COMMERCE.

contain contractive forces and to bring about an early recovery in 1953-54 to one of restraining inflationary pressures in 1955-56.

Government policies aided significantly in preventing the declines in inventory and defense expenditures during 1953 and 1954 from causing a severe recession, and they contributed to the subsequent recovery. Legislative reductions in tax rates and changes in the tax structure, and the reduction in tax liabilities which automatically accompanies declining incomes, helped maintain disposable personal incomes (Chart 7). Similarly, incomes were supplemented by payments made under our unemployment insurance and social security programs. Tax measures increased the means and the incentives for business outlays on capital goods, and ample credit was made available on favorable terms. These measures became effective promptly, before the forces leading to a downturn could gather momentum and spread through the economy.

The extent to which the recession was contained and the vigor of the recovery that followed are shown in broad measures of employment, production, and income. Total civilian employment, which had been 62.3 million on a seasonally adjusted basis in the second quarter of 1953, the period of peak activity, declined to 61.1 million in the third quarter of 1954. In the same period, gross national product measured in constant prices fell 3 percent. Personal disposable income, which had been at an annual rate of \$251 billion in the second quarter of 1953, actually rose to \$254 billion in the third quarter of 1954. With incomes well maintained, the physical volume of consumer purchases declined only 1 percent from the second quarter to the fourth quarter of 1953, and then rose to a new high in the second quarter of 1954. Residential construction outlays measured in constant prices fell slightly in the second half of 1953, but increased sharply thereafter. Business construction expenditures began rising in late 1953; even though purchases of producers' equipment continued to decline, total fixed investment expenditures rose throughout 1954, and in the third quarter surpassed their 1953 peak. State and local expenditures increased each quarter during the recession.

In the recovery period, taken from the third quarter of 1954 through the second quarter of 1955, total civilian employment rose about 2½ percent, to 62.7 million; and gross national product, personal disposable income, and consumer purchases of goods and services each increased about 7 percent, all measured in constant prices. During the remainder of 1955, economic activity continued to increase vigorously; there were substantial gains in employment, production, and real incomes. While wholesale prices of industrial goods began to rise appreciably after the middle of the year, consumer prices, on the average, remained stable.

As strong expansionary forces began to be felt, the policies pursued during the second half of 1953 and 1954 were modified toward the end of the latter year. The Federal Reserve authorities reduced slightly the degree of credit ease that had prevailed. In January 1955 a Federal budget which

brought cash receipts and expenditures into balance was recommended. This required the postponement of corporate and excise tax reductions scheduled for April 1955, which was requested of, and granted by, the Congress. As the recovery became more firmly established and economic activity continued to expand, Government policies were increasingly directed toward avoiding excessive demand pressures and consequent inflationary price increases. Since the rise in home building and in mortgage debt was particularly sharp, the Administration in April, and again in July, imposed restraints on the terms of federally-underwritten credit extended for home purchases. Federal Reserve authorities moved toward a more restrictive credit policy early in 1955, and maintained it during the remainder of the year.

The year 1956 illustrated again that the course of economic events is never a mere extension of the recent past. Although many of the policies adopted in 1955 to promote economic growth with price stability were continued in 1956, the developments of the year required important policy modifications. These developments and the policies followed by Government are described in the following chapter.

The adjustments successfully completed in the last four years reveal the very great capacity of a free economy to correct imbalances and to maintain growth with a high degree of stability. Business concerns contribute significantly to this process by doing a more systematic and orderly job of planning and scheduling capital outlays. Improvements in economic information make it possible to discern maladjustments before they reach serious proportions. Fluctuations in economic activity are moderated by the variation of Federal tax receipts which accompanies changes in income, and by changes in the amount of unemployment compensation payments. And Government has learned much about fostering economic stability through properly designed and aptly timed public policies. The contraction of 1953-54 showed that if consumer and business confidence is maintained, and if appropriate and well-timed fiscal and monetary actions are taken by Government, massive programs of Federal intervention aimed at countering recessionary tendencies are not only unnecessary but are wholly undesirable. The experience also shows that vigorous competitive enterprise supported by wise governmental policies can use the opportunity provided by a reduction in military expenditures to achieve a significant improvement in our level of living.