

Chapter 1

Economic Growth in a Free Society

THE VIGOR of the underlying forces that make for growth in the American economy was clearly evident in 1959. Employment, production, and income at the end of the year were substantially above the levels reached at the end of 1958, despite the prolonged strike in the steel industry. As this Economic Report is transmitted to the Congress, the outlook is good for an extension of growth through 1960 and beyond.

In these circumstances, it is appropriate that the first chapter of this Report should be addressed to the question of how best to extend economic growth into the years ahead at a high and sustainable rate and in ways that strengthen and reinforce our political and economic freedoms. Other chapters of the Report summarize the leading economic developments in 1959; describe the policies that were pursued in the past year to promote higher employment, production, and purchasing power; and set forth the Administration's 1960 program for extending the Nation's economic progress.

RECORD OF GROWTH IN THE AMERICAN ECONOMY

A few facts illustrate the ability of the American economy to continue raising what has long been the highest living scale in the world, while carrying a heavy defense burden and meeting broad international obligations.

In the 14 years since the passage of the Employment Act, employment has advanced, on the average, by nearly 800,000 a year. In real terms, the Nation's output of goods and services, as well as its personal income, has increased by more than 50 percent, or at a rate of 3.2 percent per year; and the output of the private sector of the economy has advanced at a slightly higher rate, 3.5 percent. For industrial production, the rate of increase has been 4.5 percent. The annual increase of 3.2 percent in total national output, which corresponds to a doubling every 22 years, is roughly equivalent to the long-term average reached in our previous history. Thus, the American economy has sustained its long-term record of growth, despite the high level of industrial development already achieved and despite temporary setbacks.

The increase in national output has made possible very great gains in the well-being of American families. Evidence of the advances made in this respect since passage of the Employment Act is presented in the Appendix

on "Diffusion of Well-Being" included in this Report. Real income per capita has increased by nearly 20 percent since 1946, and the increase per family has been 16 percent. As incomes have risen and as paid vacations have become longer and more common, leisure time has increased and recreational activities have become more widely enjoyed. The shortage of housing so evident immediately after World War II has been virtually eliminated. Since 1946, the housing supply has been increased by the construction of 15 million private nonfarm dwelling units, and there have been marked improvements in the quality of housing. At the same time, there has been a general increase in home ownership; some 60 percent of all nonfarm dwelling units are owned by the occupant families.

Attention to such material advances should not obscure the accompanying gains made with respect to other components of our well-being, some of which are less tangible. In health, there has been remarkable progress in the reduction of infant and maternal mortality, in the prevention, mitigation, and treatment of many diseases, in restoring the physically handicapped, in making available a better balanced diet at lower cost, and in creating other conditions conducive to longer years of life and greater efficiency. Health services are more and more widely available, and the great majority of Americans now have some protection under voluntary plans of hospital, surgical, and medical insurance.

Notable gains have been made in education and other cultural areas. School enrollment has risen in the last 12 years from 50 percent to about 65 percent of all persons in the age group of 5 to 29 years. From 1946 to 1959, the number of Bachelor's and first professional degrees conferred annually almost trebled, and the number of Master's and second professional degrees showed a still greater relative increase. To some extent, these advances represent the resumption of academic work interrupted by war, but the large gains made in the past few years indicate a rising trend that will accelerate in the years ahead. The number of earned Doctorates conferred rose sharply after the war, reaching in 1954 a new high, which has been maintained for several years. In the past decade, more than 83,000 Doctorates have been conferred, compared with some 27,000 during the 1930's and about 31,000 in the 1940's. Marked increases are expected also in the next several years. Another source of satisfaction is the record of scientific achievement. Since 1946, close to half of the Nobel awards for contributions to medicine, chemistry, and physics have been bestowed on American citizens.

The economic security of American families has been advanced significantly in the years since World War II. About 58 million persons—87 percent of all those in paid employment—are now covered by the Federal Government's old-age, survivors, and disability insurance system and related programs. More than 19 million persons are covered by privately financed pension plans. The Federal-State Unemployment Compensation System, which has proved its worth as a defense against loss of income during periods

of economic adversity, now provides protection for nearly 85 percent of all persons on nonfarm payrolls.

But the progress made under Government programs should not divert attention from the extensive provisions made independently by Americans for personal and family security. The number of life insurance policyholders, for example, has increased by about 60 percent since 1946; about 115 million persons were insured through legal reserve companies in 1959. The volume of time and savings deposits of individuals has increased by nearly \$35 billion, or more than 50 percent, since 1952. Share accounts in savings and loan associations have also risen by \$35 billion in this period—by nearly 200 percent.

And it is not too much to say that we have made good progress in moderating fluctuations in our economy. Although economic recessions, however minor, must remain a matter of concern to all Americans, the relative mildness and short duration of the three since the war have to be reckoned as a major factor in the strengthening of personal security.

NEW CHALLENGES AND OPPORTUNITIES

These improvements in the well-being of the American people offer convincing testimony of the productiveness of our free economy and the wide distribution of its annual yield. Continuing efforts are needed, however, to assure that advances are extended into the future at high rates.

One important line of progress to this end is the lessening of fluctuations in our economic development. Although the severity and duration of economic recessions have been limited in the postwar period, we must strive for a steadier rate of growth. This would not only reduce the personal hardships incident to economic setbacks but could also yield a higher annual rate of growth over a period of years.

In addition to lessening cyclical declines in employment, efforts should be made to improve the skills of our labor force and to make consistently fuller use of economic resources in all parts of the Nation. In general, unemployment rates in the United States have not been high for an economy which allows and experiences considerable labor mobility and job change, but they can and should be lower. Since unemployment is typically highest among those persons with inadequate training in the skills demanded by a dynamic industrial economy, better schooling and improved counseling services are clearly desirable. Also, while advances in economic activity and in well-being have been widely shared, constructive measures are needed to draw more fully into the mainstream of economic growth those communities and areas that experience persistently high unemployment.

In the decade we have just entered, a new factor—the expected sharp increase in the labor force—will require, and will help to achieve, more rapid economic growth. Over the past decade, our labor force increased at an average rate of about 825,000 a year. But the sharp rise in births

in the years since the war means that the annual increase in the number of persons available for employment will rise rapidly in the next ten years. Projections suggest something close to a doubling of this annual increment to the labor force by the end of the 1960's. The rapid expansion of our manpower will offer a unique opportunity for increasing our rate of output. By the same token, our economy will have to supply additional employment openings, by the end of the decade, at a rate twice that required in the 1950's.

The coming of age of this large group of young people will also require great increases in the output of housing and of consumer goods and services of all kinds, as new families are formed and new households are established in increasing numbers. Meeting these output and employment demands in the next decade will require a vast increase in savings and invested capital to supply needed tools and facilities. It will require continuing extensive private and public support of basic and applied research. It also will require greater efforts, primarily by local and State governments and private groups, in education and training.

Success in providing the additional new job opportunities would, of itself, accelerate our rate of economic growth. By the end of the 1960's, this acceleration and an improvement in productivity similar to the average for recent decades would yield an annual national output close to half again what it is today. And this performance could be bettered if we succeed in creating conditions that favor a higher rate of increase in productivity.

SHARED RESPONSIBILITY FOR ECONOMIC GROWTH AND IMPROVEMENT

The economic tasks of the next decade pose impressive challenges, but there is every reason to believe that they will be met, just as similar challenges have been met in the past. We should regard these challenges as opportunities, and recognize that we have great advantages as we go about meeting them. A large productive base already exists in the American economy, and our competitive enterprise system is well able to expand this base as needs increase. The ideals, freedoms, incentives, and rewards of our enterprise society are powerful forces in directing efforts and material resources to the meeting of new tests. And our traditional and proven system of sharing responsibility for economic growth and improvement between the private and public spheres of our society, and among the several levels of government, provides a means for guiding those efforts along fruitful lines.

The premises of this system of shared responsibility, recognized by the Congress in Section 2 of the Employment Act, deserve renewed emphasis as we prepare for the challenges and opportunities of the new decade. In our society, the maintenance of a climate conducive to orderly and vigorous economic growth is not exclusively the function of government. Indeed, excessive reliance on governmental machinery may not only frustrate the

quest for steady growth and reasonably stable prices, but may also have undesirable consequences for our economic system and our freedoms. The more effective the job done by individuals and private groups and by government at the State and community levels, the less the danger of Federal encroachment in areas that have traditionally been the province of private enterprise and of local government. Our various levels of government and private individuals and groups have distinctive roles in our free society's system of shared responsibility. At this point it is well to recall these roles, with particular reference to the problem of maintaining a high rate of economic growth.

Roles of Government

In a free society, government makes its major contribution to economic growth by fostering conditions that encourage and reinforce the efforts of individuals and private groups to improve their circumstances. This includes the preservation and enhancement of competition, the maintenance of a stable currency, the moderation of fluctuations in employment and output, participation in the development of human and natural resources, the enhancement of personal security, provision of a sound national defense, and the maintenance of mutually advantageous ties with other countries.

Responsibility for many of these roles is divided among the various levels of government, but none can be carried out adequately without the initiative and cooperation of individuals and private groups. This network of relationships is the product of our history. It embodies the American concept of government as the responsive instrument of the people.

The Federal Government's contribution toward preserving and strengthening the institutions of our competitive enterprise system, to which the Employment Act properly directs attention, is of special importance. Open markets perform the essential task of channeling economic resources into the uses that businessmen and consumers deem most satisfactory; in this way, they contribute to the productiveness of our economy and to the quality of our living. They should remain free of unwarranted restraints. Leaders of business, labor, farming, and the professions, as well as the various levels of government, have responsibilities for maintaining the openness and resiliency of our economic system. The competitive nature of this system is closely linked to our ideals of freedom and individual initiative, which have far more than economic significance. A free society, free political institutions, and a free economy are interdependent and reinforce each other.

As indicated earlier, Federal action to help smooth out economic fluctuations affords another opportunity to promote growth. Deep and prolonged declines of production, involving substantial reductions in investment, not only interrupt current advance but impede future growth. It is widely acknowledged that to avoid such declines Government should take measures, appropriately designed and timed, to counter recessionary tendencies. It

is also important that appropriate measures should be taken to restrain surges in economic activity that might lead to drastic corrections.

Governmental decisions regarding the volume and character of public expenditures have powerful effects on the health of the economy and on its prospects for vigorous and sustainable growth. Especially in a briskly growing economy—the kind to be expected in the current decade—demands on economic resources are heavy and rising, and public outlays are made at the expense of private spending. The public use of funds, whether to continue established programs or to initiate new ones, must be justified on the ground that it makes a larger contribution to well-being and economic strength than could be made by their private use. The entire range of Federal spending must be continuously under review, with this criterion in mind. Many public programs make important contributions to growth, both directly by increasing the productive capacity of individuals and business firms and indirectly by facilitating and encouraging the greater private investment that enlarges our capacity for future production. It must always be borne in mind, however, that we grow only by investing more and producing more, not simply by spending more.

The way taxes are levied also affects the advance of productivity and output. We must remain alert to the possibility of making the tax system a more effective instrument for promoting economic growth. Taxes affect the ability of individuals and corporations to save. Likewise, their impact on the risk and return of investment influences the willingness to make productive use of savings. Our tax system should give encouragement to productive effort and should facilitate the mobility and efficient use of capital. We should continue to review our tax system from these standpoints, as well as from the standpoint of equity.

The Federal Government can make a basic contribution to an environment favorable to economic growth through a constructive, forward-looking management of its finances. To meet this vital responsibility in fiscal affairs, while performing its functions adequately, Government must give clear evidence, in actual results, of its ability and determination to control its expenditures. When the Nation is prosperous, as it is today, with production, employment, and incomes rising, the most appropriate fiscal policy is one that provides a sizable excess of Federal revenues over Federal expenditures. In the economic circumstances now prevailing and expected in the near future, a budgetary surplus used to retire debt would be a powerful aid in helping to restrain inflationary pressures and to promote sound growth. The added savings which it would supply to the economy would help keep interest rates lower than otherwise, and facilitate private investment activity and the financing of public projects by State and local governments. The monetary authorities would have a freer hand in pursuing policies aimed at promoting steady, inflation-free growth. And such a fiscal policy would be a potent instrument for strengthening confidence in the dollar at home and abroad. Indeed, a sizable budget surplus

at this time, used to retire Federal debt, would effectively implement the objectives proclaimed in the Employment Act.

Roles of Individuals and Private Groups

Since the vast majority of economic decisions in a free society are made by private individuals and groups, the rate at which national output grows and the character of that output are determined chiefly by private attitudes and actions. The expenditures of consumers command about two-thirds of the Nation's total product, and private investment expenditures command another one-eighth, or more. Individuals and business concerns supply the bulk of the Nation's savings, and the major responsibility for directing these savings into private and public investment rests with private institutions. Finally, as citizens of a democracy, individuals determine directly or through chosen representatives what they want done through government, and at what cost. Obviously, the performance of our free economy depends largely on how individuals and private groups fulfill their many critical roles.

In their key role as consumers, individuals can contribute to the Nation's economic strength by spending wisely, just as government, acting as their agent, can promote growth by prudence in its spending. By the use to which they put their income they determine in large measure how economic resources are allocated. And in buying carefully for price and quality, they exert a restraining influence on the cost of living.

Individuals and corporate groups, in their roles as business leaders, can help strengthen the economy by the use they make of the resources under their control. They may be able to speed the increase in productivity in the private sector through allocating a greater share of these resources to investment and research and through pricing policies that favor the expansion of markets. Also, they can speed growth by upgrading worker skills, by improving the skills of management, and by eliminating wasteful practices.

Equally, leaders of labor have an opportunity as well as a responsibility to help realize more fully the Nation's economic potential. They can contribute significantly in this direction by fostering arrangements favorable to higher labor productivity.

And leaders of business and labor have a joint responsibility for facilitating economic growth through the conduct and results of collective bargaining. This responsibility is especially great in industries that are basic to the Nation's defenses and economic health. Events of the past year demonstrate the damage that can be done when established methods for settling industrial disputes break down. An obvious way to achieve our economic potential more fully is to improve on this aspect of the past year's record. Labor-management disputes in basic industries should be settled promptly, preferably without recourse to strikes, and certainly without extended interruptions of production that cause widespread dislocation and unemploy-

ment and threaten to paralyze our entire economy. They should be settled also on terms that are fair to the public at large as well as to the parties directly involved.

Labor-management negotiations in all industries offer opportunities to help promote sound growth by avoiding settlements that contribute to inflation. Settlements should not be such as to cause the national average of wage rate increases to exceed sustainable rates of improvement in national productivity. A national wage pattern that fails to meet this criterion would put an upward pressure on the price level. Hourly rates of pay and related labor benefits can, of course, be increased without jeopardizing price stability. Indeed, such increases are the major means in our free economy by which labor shares in the fruits of industrial progress. But improvements in compensation rates must, on the average, remain within the limits of general productivity gains if reasonable stability of prices is to be achieved and maintained. Furthermore, price reductions warranted by especially rapid productivity gains must be a normal and frequent feature of our economy. Without such reductions we shall not be able to keep the price level as a whole from advancing.

A well-informed and vigilant public opinion is essential in our free society for helping achieve the conditions necessary for price stability and vigorous economic growth. Such public opinion can be an effective safeguard against attempts arbitrarily to establish prices or wages at levels that are inconsistent with the general welfare. Informed public opinion is also necessary to support the laws and regulations that provide the framework for the conduct of our economic affairs.

However, we must go further in establishing a broad public understanding of the relationships of productivity and rewards to costs and prices. It would be a grave mistake to believe that we can successfully substitute legislation or controls for such understanding. Indeed, the complex relationships involved cannot be fixed by law, and attempts to determine them by restrictive governmental action would jeopardize our freedoms and other conditions essential to sound economic growth.

Our system of free institutions and shared responsibility has served us well in achieving economic growth and improvement. From our past experience, we are confident that our changing and increasing needs in the future can be met within this flexible system, which gains strength from the incentive it provides for individuals, from the scope it affords for individual initiative and action, and from the assurance it gives that government remains responsive to the will of the people.