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THE ECONOMIC LANDSCAPE

Address of C. Canby Balderston, Member,

Board of Governors of the Federal Reserve System,

before the

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The Economic Landscape

Our economic life may be likened to an enormous river that flows without ceasing. Sometimes its progress is straight and placid, sometimes crooked and tumultuous. Those supported by this economic flow--and who is not--keep peering into the future to discover what lies ahead, both in the long distance and in the short.

The effort to observe what mountains, rapids, rocks and pleasant fruitful valleys are to be encountered is as old as Adam's departure from the Garden. It is born not alone of curiosity but of the imperative need to make those plans and take those actions needed for success and survival. But the forecasting even of the immediate future makes one aware of the perils of prophecy. They are of course greater with long-run predictions than with short. And so, a venture to do both would seem to place one's self in double jeopardy.

Regardless of the risk of being proven a poor prophet, I will ask what a long view reveals. Among the trends that seem to me worthy of notice are four:

The first is the recent high rate of population increase--about 1.7 per cent a year as compared with less than 1 per cent in the 1930's. The most fundamental question stemming from it is whether we can provide our growing population with a constantly rising standard of living. I will leave the answer to this question to the future--noting only that our history has been characterized by a persistent upward trend, albeit with short-term irregularities.

One aspect of population growth is the number of households formed each year, which affects the construction of schools, roads, homes, and household furnishings. Even though household formation is expected to decline during the next few years from earlier high levels, population growth will, in the long run, bring about an increase in household formation. For many decades the number of households has tended to grow more rapidly than the population, causing the average size of household to decline. Or, perhaps the cause-effect relationship is just the reverse. The more rapid growth in households reflects a greater tendency for parents to maintain separate households long after their offspring have set up homes of their own. As a result, the average size had dropped from 4.93 persons in 1890, to 3.35 by 1950, and to 3.28 by 1953. The rate of household formation, which is itself influenced by the state of business, makes an impact upon the volume of sales of many industries. During the 1930's, the number of households added each year averaged only about half a million; in the immediate postwar years, 1947 to 1950, nearly a million and a half. Since then, the rate has fallen to approximately one million a year, and during the rest of this decade seems likely to run about 800 thousand. Even this reduced rate of increase will probably give us more than 52 million households by 1960 as compared with 43.8 million in 1950 and 46.8 million in 1953. For this estimate I am relying upon Current Population Reports of the Bureau of the Census.

As to the impact of population growth upon the labor force, I will assume freedom from another world war but continuance of a high level of defense activity. According to the Bureau of the Census, it is estimated that enough jobs will be required each year during the last half of the current decade to absorb about 900,000 persons, as compared with 700,000 in the first half. During the 1960's, the problem of job creation will become more than one-third greater for, during that period, the postwar babies will be seeking jobs at the annual rate of nearly 1.2 million.

A second trend is the centrifugal movement of population in metropolitan areas. For some decades there has been a trend from mid-city to suburban areas. Made possible by improved transportation, this trend has enhanced suburban real estate values, depressed some city property values, and led to a tremendous demand for autos and for roads to run them on, for schools, water works, disposal plants, and other utilities. For some utilities the requirement for plant and equipment and the requisite capital is magnified by the fact that the cost of such expansion seems to increase, not in direct ratio to the distance at which people settle from city centers, but at a much higher ratio.

A third factor is the gain in productive capacity during and since World War II. This gain cannot be measured accurately but its magnitude is reflected in the investment in new plant and equipment. In the four years of 1947-50 American business spent over $20 billion a year on new plant and equipment and, in the four succeeding years, nearly $27 billion annually. The latter is almost five times the figure for 1939. In short, in the years following the end of World War II, American business has invested over $200 billion to replace, improve and expand its productive facilities. Even after allowance for substantial price increases since 1939 and for replacement of worn-out facilities, the net expansion in the physical volume of fixed capital has been tremendous. For example, steel capacity has been increased by over 50 per cent; electric power capacity, by about 150 per cent. While we are unable to measure accurately the resultant growth in total industrial capacity, the growth exists and is significant. I mention this factor both because of the importance of these resources in the event of war and because of the obvious social gains from our ability to create a larger pile of goods and services for consumers to enjoy. But this social gain is not without cost. As Emerson pointed out in his essay on Compensation, "Every sweet hath its sour; every evil its good. . . . . For every benefit which you receive, a tax is levied . . . . Every thing has two sides, a good and an evil." For the manufacturer in a particular industry, growth in plant capacity may mean greater profit potential for himself but increased competition within his industry accompanied by downward pressure upon prices. On the one hand, American business has enhanced its ability to create goods and services, which provides material benefits for all and a useful and potent brake upon inflation; on the other hand, it has stepped up competition. Excess capacity puts pressure on prices and in turn on costs. Competition, of course, has been an integral part of the process by which new products have been introduced and distributed and by which gains in productivity have been disseminated throughout our economy.

A fourth factor is technological development. Since World War I, the number of men engaged in industrial research has increased fifty-fold, and as Dr. Mees of the Eastman Kodak Co. has pointed out, technical advance has been accelerating at a rate that has itself been accelerating. Yet this has been a period very short in the history of mankind. In the dramatic language of Dr. Robert E. Wilson, Chairman of Standard of Indiana:

"Let us compress the supposed 500,000 years of man's development into 50 years. On this time scale it took man 49 years to get over being a nomad--even longer to get his first pair of pants. - - A few months ago a few men learned to write; two weeks ago the first printing press was built. Only within the last 3 or 4 days have we really understood how to use electricity.

"And within the very last day have come such amazing things as radio, television, diesel locomotives, rayon, nylon, sulfa drugs,-- electric computers - - - 100-octane gasoline, color and sound in motion pictures. - - On our condensed time scale, jet planes, a dozen new antibiotics and hormones, and the release of atomic energy all came into the picture" in the last hour or two.

Dr. Wilson's portrayal of man's technical advance has the great virtue of simplicity. Too often worthwhile ideas become lost in academic language.

The point that Dr. Wilson is driving home is that technology is the most significant characteristic of our time. It is true, of course, that it has increased to awesome proportions man's ability to destroy himself, but it has also enhanced his ability to achieve a satisfying material existence. Even though critics may feel that people have become overly interested in gadgets, it is my belief that the physical facilities for living a good life that are made possible by technology increase the chances of millions to enjoy the comforts once reserved to kings.

The Immediate Outlook

When one seeks to forecast the state of business in the near future, he must assess the relative influence of many forces that do not move in the same direction at the same time. To quote a great authority on business cycles, the late Wesley C. Mitchell, "A real chart of one business cycle would be a hopelessly complex tangle of hundreds of curves." Businessmen find the problem so perplexing that they tend to center their attention on a few factors that seem to them to have proven helpful in prognosis. In order that businessmen and scholars may apply the exception principle to this problem, the National Bureau of Economic Research has analyzed the several hundred indices which it has studied over the last quarter century.

The Bureau has found some that tend to move in advance of general business, some that move concurrently with it, and some that tend to lag. I will mention only those that have tended to move in advance; i.e., to lead. These are new orders for durable goods; business failures, as reflected in liabilities; average hours worked per week in manufacturing; residential building; nonresidential building; commodity prices; new incorporations; and industrial stock prices.

The majority of these indices are still pointing upward. Their favorable prognostications are being confirmed by the indices that coincide with general business, such as nonagricultural employment, freight carloadings, and industrial production.

These indicators appear to be suggesting the likelihood of a continued rise in activity. However, like other measures designed to enable us to read the future, they must be used with caution. To provide perspective for them, a brief look at the immediate past may be useful.

This recession seems to have been of about the same intensity as that of 1948-49. It began about the middle of 1953 and by the spring of 1954 showed signs that it might be coming to an end. Throughout this period, inventories, which were so high a year ago as to give businessmen real concern, have been reduced at an annual rate of 4 to 5 billion dollars. This has been a healthy correction, but at the same time a business depressant. Government spending, particularly for defense, has also been reduced considerably. It is, therefore, reassuring that, in the face of substantial reduction of inventories and of governmental buying, the decline in business activity did not become cumulative and business is apparently showing signs of some recovery. A powerful force aiding recovery has been the sharp increase since spring in residential construction activity. Consumer outlays for nondurable goods and services have also risen, as has spending by State and local governments.

The challenge that now faces our economy is to use prudent management in private and governmental affairs. The gifts that technology heaps upon us have expanded our scale of living beyond the wildest dreams of one of Ben Franklin's time. Our ability to produce has been tested more than once by the God of War. What he called forth in such abundance because he appealed to the loyalties of men is required likewise by the Goddess of Peace.

But prudent management would emphasize a sense of balance and proportion. The stable healthy growth in productive facilities and in production that is needed for the best interests of consumers and of breadwinners can be injured either by lack of faith or by excessive speculative enthusiasm. To maintain such a balance with nicety requires delicate handling of credit control mechanisms. It calls likewise for the understanding interpretation of the economic facts of life by all informed citizens and especially by the banking fraternity.

If we may revert to the analogy with which we began, that our economic life is like a great river flowing at varying rates of speed through dangerous rapids as well as fertile prosperous valleys, it seems superfluous to suggest that safe navigation calls not only for peering ahead, but for the intelligent charting of a course coupled with the courage to follow it regardless of temptation.