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EXECUTIVE DECISIONS AND CONTINUED RECOVERY

Remarks of C. Canby Balderston,

Vice Chairman, Board of Governors of the Federal Reserve System,

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EXECUTIVE DECISIONS AND CONTINUED RECOVERY

Business is prosperous. Much of it is on the highest plateau in history. What can executives responsible for policy making do to keep it so? Since the collective health of business reflects the experience of a variety of individual firms, the decisions affecting their future are vital to continued stable growth in consumption, production and employment.

What are the soundest policies to follow, now that we are on high ground with all the accompanying exhilaration? One approach is to ask what government can do to prevent a descent into whatever valley may lie ahead. It is no longer necessary to argue the importance of the policy decisions made by fiscal and monetary authorities. They are among the important forces influencing the climate in which business firms grow and prosper or decline and die, but climate is only one of the conditions necessary for good crops. Plain hard work and intelligent planning and supervision are needed also. While recognizing the impact on business prospects of monetary policies, of tax provisions and a friendly governmental attitude toward constructive business developments, I prefer to discuss what business itself can do to keep in good condition. When in depression, necessity forces much head holding and soul searching to find solutions. My thesis is that the time to start hunting them is right now while business is excellent.

The low state of certain portions of the economy, such as coal, dairying, and farms in drought stricken areas, is painful to those who suffer from lack of work and income. Though these soft spots exist and give concern to thoughtful citizens, they do not reflect the general state of industry and commerce. Business is not only good; it is at an all-time high.

To gauge how high is the path on which we are now traveling, it is instructive to look backward at the previous peak and the intervening valley. The peak occurred in the spring and summer of 1953 and the valley in the spring of 1954. At the previous peak, gross national product was about $370 billion and is now estimated to be over 375; national income was $308 billion and is now estimated to be about 315; personal income was $288 billion and is now estimated to exceed 295; disposable income, $251 billion, now estimated at about 265; the index of industrial production was 137 then and is now at about the same level. Looking down into the 1954 valley out of which we have climbed, industrial production was then lower by 14 points (10 per cent); gross national product by about $20 billion (6 per cent); national income by approximately $17 billion (5 per cent); disposable income by more than $10 billion (4 per cent). It is worth noting, however, that disposable income was maintained at its previous high in the early stages of the 1953-54 recession and moved to still higher ground during 1954.

Construction activity is also at a new peak, and steel output is 2 per cent above the previous high of March 1953. Likewise, as everyone knows, sales of new autos have made a new record this spring. Output of non-durable goods has reached a new maximum--slightly above that of mid-1953 and almost 25 per cent above the average for 1947-49. Another peak has been reached in the retail sales of house furnishings; retail sales in total have also been at an all-time high, nearly 7 per cent better than a year ago. After all, we should be making new records from time to time: our economy has grown larger as the country has grown older.

Now I come to the principal point of my discussion: the quality of business decisions is important at all times, but especially so during prosperity.

In short, the duration of the current expansion will be influenced by the quality of policy decisions now being made by business executives. I am talking about the heads of manufacturing, mining and commercial enterprises, about farm managers and bankers--and about union officials, too. Unless the quality of this decision-making reflects prudent judgment as well as a reasonably well-founded appraisal of present and future trends, executives will make mistakes for which they and their workers and investors will pay the penalty. What I am arguing for is that executives should risk neither too little nor too much; be willing to venture but still guard against unwarranted optimism.

The most vital decisions are those made by businessmen themselves. Typical among these decisions are those relating to capital additions, inventories, elimination of waste by efficient controls and by mechanization, and the development of new products. No less vital are decisions to acquire other firms through purchase or merger.

Decisions to make capital additions involve many corollary decisions. How will the new plant affect the producing capacity of the company and of the industry and the relation of that capacity to the effective demand for the product? How seriously will the investment of capital in fixed form, in brick and mortar and equipment, cause the firm to be strapped for working capital? Under the spell of the current optimism, are companies becoming, in farm language, "land poor"?

Inventory accumulation does not now appear sufficiently speculative to be of immediate concern. At present there is no such rapid inventory build-up as in 1952 and early 1953. Last year inventories were reduced month by month and quarter by quarter,--a salutary process. By late 1954, however, inventory decline had ceased, and some build-up of inventories is now in process. The relative stability of inventories doubtless reflects in part the unusual stability of average prices. While prices of farm products have declined sharply, industrial products have edged up and average wholesale prices (all commodities) have fluctuated relatively little over the past three years. In April 1952 the index was 112; in the recession of 1953, 109; now, about 110 (estimate). Or, it may be that managers are keenly aware of the losses inherent in swollen inventories and keep them adjusted to the level of new orders. The fact that relative stability of prices has minimized the temptation to take long positions in raw materials and to increase stocks on hand unduly must not blind executives to the risks of speculative excesses if prices should rise sharply.

During a period of recovery such as we are enjoying, the greater volume, the economies introduced during the preceding slack period, and the installation of new equipment cause output per manhour to increase. As one would expect, therefore, last year's rate of manufacturing productivity grew faster than the postwar trend. It should be stressed, however, that as recovery is achieved, continued good times may tend to encourage wastefulness through inattention or imprudence. An attitude of "easy come, easy go" may lead to wastes of materials and manpower--wastes which would not be tolerated in times of adversity. Large volume and the extra shifts occasioned thereby may also cause machines to be run so hard as to preclude adequate maintenance.

As to product development, the period when orders are obtained easily is obviously the time to push the design of new products to the stage where they can be put into production and on the market if and when business declines.

Product development is not only one of the great social benefactors of our age because of its impact on the physical basis of a good life, but to the individual firm it may be essential to remaining competitive. Inventive prowess has given American firms new products so useful and appealing to consumers as to form the basis for entirely new industries, such as the automobile and electronics industries. In the future, product development must be counted upon to provide a high and rising standard of consumption, jobs for an increasing labor force, and the competitive strength of manufacturing firms. Both industry and society at large are served by continued emphasis upon research throughout good times and bad.

Mergers are once again the subject of discussion among businessmen, economists, and government officials. Whether or not mergers may lessen competition is too complex a subject for discussion here, but since we are dealing with the quality of management decisions, it may not be inappropriate to inquire as to the motives prompting the mergers now being consummated. Doubtless many result from a desire to increase efficiency and the company's competitive position. If they add to efficiency by permitting the company to offer a fuller line to dealers and other customers, or to increase the degree of vertical integration so that better coordination may be achieved over procurement, manufacturing and distribution, mergers may provide a social gain and benefit the companies that are combined. But if the consolidation of companies is prompted solely by the desire for speculative profit, or by the urge to increase company size for reasons of personal pride and power, then the merging process is to be viewed with concern.

The central problem we are discussing is how to extend the period of prosperity and to make more gradual any future descent that the periodic undulations of business may bring about.

At the outset it is appropriate to point to certain danger spots. One source of concern--particularly if employment and incomes should decline--is the quality of mortgage and automobile credit. As terms have lengthened, there has been a tendency for quality to decrease. It should be stressed, however, that repayments have so far been excellent. Closely associated is the question as to whether the demand for automobiles and housing will be sustained sufficiently to permit maintenance of current high levels of output. And then there is the stock market, where the rate of climb of prices and credit caused eyebrows to be lifted when its speculative possibilities attracted the attention not only of businessmen but of those less sophisticated.

To offset such potential danger spots are certain strengths for which we should be grateful. One important factor making for stability is business optimism tempered by prudence. Such optimism is evidenced by eagerness to take advantage of expanding markets by large-scale investment in fixed capital. At the same time, however, many businessmen have tended to be wary of speculative over-commitments. Those executives who were active during the thirties do not have to be reminded of depression worries, such as inventory losses, shortages of cash, inability to provide employment, inability to pay dividends, and the threat of failure. Such awareness, combined with greater economic information, adds to our business security and stability. The lessons driven deeply into the consciousness of older executives still provide an effective brake on speculative ebullience. Nevertheless, many executive jobs are now held by those who have reached posts of responsibility in recent time when orders have been obtainable with ease and profitability has been taken for granted. In general, the last decade and a half has been characterized by expanding volume in which private buying was supplemented by heavy governmental spending, and by credit that was adequate for the needs of an expanding economy. Only occasionally during this period has it been necessary for firms to stress rigorous cost reduction. It may be timely, therefore, for each company to take a fresh look at the return obtained from the dollars of out-go. If laxity in spending has developed, the sooner such waste is stopped, the more certain is the firm to remain competitive without drastic retrenchment at a later time when collective retrenchment would only accelerate the forces of recession. The time to fix the roof is when the sun is shining.

While they continue to enjoy the bounty of prosperity, company executives may deem it wise to keep watching cash position. To maintain its strength diminishes immediate earnings perhaps, but so does insurance of any kind. An appropriately liquid condition provides a buffer for the shocks of bad times; protection against bad luck or miscalculation. It permits decisions to be based on what is best for the company and those dependent upon it. A management short of cash finds its decisions dictated by necessity; it cannot be as mindful as it would like of the needs of its employees, customers, suppliers and investors.

The problem, of course, is how to balance insufficient protection against too much; to achieve a proper balance between caution and daring, between conserving and expanding, between the safety of a strong cash position and the growth that borrowing makes possible. One is reminded of the retort made by a manufacturer to a visitor who remarked during a plant inspection that the host's plant did not appear up-to-date: "Come in to the office, then, and look at the strength of my cash account." They may have both been wrong.

Proper balance requires that we not be overly cautious when times are bad, nor overly optimistic, to the point of imprudence, when they are good. By and large those who are best equipped to achieve this nice balance between too little risk and too much are those who are intimately acquainted with the affairs of an enterprise. Knowing the company's history as well as its secret strengths and weaknesses, they are in a favorable position to judge what policies to adopt.

The problem is how to keep economic growth so orderly that industry and commerce can provide increased jobs, goods and services without the interruptions that accompany violent dips. Steady, consistent progress calls for decisions of the best quality that business executives can make. Their decisions, if sound, will do much to lengthen the period of prosperity that the country is now enjoying. As Dr. Winfield Riefler has remarked: "A business situation is no better than the quality of the decisions that businessmen make."