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## Economic Growth - How Fast and Where To?

What has impressed me most during this visit to Louisiana is the tremendous economic progress that has been made here. We hear a great deal about growth these days. Some economists tell us that we are lagging, that we are not growing fast enough. I suspect that these economists have not looked around your state. Indeed, I sometimes wonder whether they ever look at anything but numbers. They use numbers very adeptly, but they do not always bother to ask what the numbers mean, what the reality underlying them is. They remind me of the old colored gentleman down in these parts who got into a traffic accident. When the judge found he could not read, he pointed out that this was dangerous and directed that he learn to read if he wanted to continue to drive. Some weeks later a friend asked him how he was progressing. "Pretty good," he replied. "I got the figgers down right smart. Now when I come to those signs I can tell 'how far' and 'how fast', but I cain't yet tell 'where to'."

So it is with our economic growth. We have a lot of people telling us how far we ought to go, and how fast, but few of them venture to tell us just where it is they want us to go. (I mean "us" as a nation. Some of them are quite clear as to where they want us at the Federal Reserve to go.)

There is no question that if we put our minds to it, we could go - for a while, at least - as fast as the more ambitious advocates of rapid growth contend. Whether we could go as far as they think possible is not quite so certain. Just where we would be and how we would like it after we got there is another question. We might react like the old gentleman over in Texas who was asked by a stranger if it was very far to East Weatherby. "Nope, tain't far at all," the old man replied, "but after you get there, you'll wish it was a durn sight farther."

Of course, I am not suggesting that we can ever be complacent. It is surely right always to be reconsidering how our economic system works, how we should like it to work, and how we might make it work better. In this spirit of inquiry, we should welcome such studies as those now being completed by the Joint Economic Committee of the Congress

on broad questions of employment, growth, and price stability.

Two general qualities of the papers so far produced for the Joint Committee are especially welcome. The first is the stress laid on the importance of wise decision-making by private groups and individuals. It has always seemed to me a mistake to imagine that government could do the whole job of guiding an economy as diverse and dynamic and free as ours. You cannot legislate common sense into people's heads, and yet our economic performance depends upon its being there. As the Irish delegate to the United Nations remarked, "the most underdeveloped territory in the world lies directly beneath men's hats."

The second welcome feature is that economists seem now more widely agreed than they were a few years ago on the proposition that inflation is a bad thing - inequitable, wasteful, and unnecessary. I like to think that this view is also gaining ground in wider spheres - that consumers are fed up with inflation, and that political, labor, and business leaders speak out more often against inflation nowadays than they used to, even if their actions are not always in harmony with their words.

Having expressed these generally hospitable thoughts toward the study of economic growth, I must add that I see dangers in the way the public discussion of growth has been going lately. Too many people, including some reputable economists, are playing a kind of numbers game. I cannot believe that one can really know that a 3.5 per cent growth rate will be too low for our economy and our particular preferences, or that a 5.1 per cent rate will be too high.

The statistical measures of growth are themselves fragile and ambiguous. Numbers have a simplicity that appeals to headline-writers (and headline-seekers), but they conceal essential qualitative features of our changing economy. You could raise the statistical per capita growth rate, you know, by shooting everyone dead on the day he retired. But I would rather count increased longevity as an element of growth than as a hindrance to it. Similarly,

there seem to me to be some civilizing gains associated with increased leisure, although that also reduces statistical growth rates. Again, a more rapid build-up of surplus agricultural stocks appears statistically as growth, whereas an improvement in the quality of our school teachers does not. More generally, a shift of production away from goods towards services slows down the growth rate, but in fact more services may be exactly what the community wants.

So much for the pitfalls in the numbers game of growth! Why cannot we regard it simply as a harmless pastime for the specialists engaged in it? The trouble is that the game has unwholesome effects on the participants, and may end up by involving all the spectators in a traumatic experience. The first object of the game is to persuade Americans that they are on the losing side. Magic numbers are adduced to show that we are falling disastrously behind the Russians, and behind our own growth potential. We are losing, on some calculations, by a score of 3 per cent a year against 7 or 8 per cent for Russia. This is said to be a great defeat, calling for heroic remedies, for drastic action, for junking old policies and starting fresh.

Now I submit that our economy is not really suffering from any such massive failure. I do not think the facts show us to be failing nearly so badly as much of the popular discussion would imply. I do not think we really want to follow in Russia's footsteps. No doubt some changes could improve the performance of our economic system, and if so, they should be adopted, but the idea that a drastic overhaul of the whole economy is essential simply does not fit the facts. In particular, those critics who say that the only proper role of monetary and fiscal policy is to make money and credit cheaper and more abundant are misjudging the problem, and misjudging also, I think, the growing public disillusionment with inflationary medicine.

What are the margins by which our economy is failing to do its best, and how can they be reduced? Critics of recent monetary and fiscal policies point to the fact that more than 5 per cent of the labor force is still unemployed, despite the strong uptrend in production since

the spring of 1958. They say this percentage is too high. I agree; it is. We ought to be able to do better. But even the most ardent growth enthusiasts do not expect our economy to work smoothly with no unemployment at all, since people must sometimes be changing jobs. Three per cent unemployment is their generally accepted goal. And most of the difference between that and the present 5 per cent level represents pockets of unemployment in particular industries and localities - in coal-mining and railroad communities in Pennsylvania, in textile towns in New England (despite the current boom in textiles), and in some durable goods areas. There may be much we can and should do to help these people learn new skills and find new jobs. But they will not be helped for long by a general spending splurge; they and others would be hurt when such a splurge produced an unsustainable burst of activity and inflation, followed by painful readjustments as illusory expectations proved unfounded.

A second criticism of our economic performance is that we are not producing enough of the right kinds of products. In particular, it is said that we are not devoting enough resources to education, to defense, and to other public services. That may be true, and if the community so decides, it can remedy the situation through our democratic political processes. In New York State, for example, it was decided last year that public services should not be cut back, and ought to be expanded in some directions; so the legislature voted new taxes to pay for them. Other communities can do the same. We can have whatever public services we are willing to pay for. But this has nothing to do with monetary policy or with the sound fiscal goal of budget surpluses in times of prosperity. What we will not pay for, monetary and fiscal policy cannot give us.

A third criticism of our economic performance is that business cycle fluctuations have been too large, so that resources run to waste during recessions. Again, I agree. But it is precisely by reducing these fluctuations that flexible monetary and fiscal policies make a major contribution to sustainable growth and employment.

Most observers now agree that both the 1955-57 inflation and the subsequent recession had their roots in an unsustainable burst of housing construction and auto production in 1954-55, followed by overoptimistic plant and equipment outlays in 1956. In that apparently rosy period, inflationary long-term wage agreements were negotiated in major industries, and the creeping-inflation psychology became popular.

We have spent three years, and one recession, trying to work our way out of that unstable situation, and we are not out of the woods yet. Surely the trouble with monetary and fiscal policy during the last business cycle was not that it stepped too hard on the brakes in 1956-57, but rather that it did not step on them hard enough and soon enough in 1954-55.

I hope we will do better this time, and so far I think we have. But much will depend on the good sense of private groups and individuals. I do not know what the ultimate effects of the recent steel wage settlement will be, but experience indicates that when the fruits of rising productivity in the most rapidly advancing industries are distributed exclusively to the participants in those industries, the outcome tends to be inflationary or harmful to employment. I hope to see the day when a portion of the gains in productivity flows to consumers in the form of lower prices. However, it is not merely businesses and labor unions on whom we must rely for good sense. The consumer, too, will intensify the ups and downs of the business cycle if he persists in flashing his new credit cards without discretion in times of prosperity, only to lay them aside entirely when even a moderate recession sets in.

I have dealt with three major criticisms related to our growth rate - that unemployment is too high, that public service outlays are too small, and that business fluctuations are too large. All of these criticisms have some validity, and may require special remedial actions. But none of them points towards wholesale revision of the monetary and fiscal policies we have been following. Quite the

opposite! Anti-inflationary monetary and fiscal policies are essential at this expansive stage of the business cycle, when the economy is growing very rapidly indeed, if we are to avoid those unsustainable bursts of activity that are accompanied by inflation and are always followed by painful readjustments.

I trust that what I have said with respect to percentage rates of growth has not given you the impression that I am opposed to the use of numbers - of statistics. As you know from the statistical reports we request of you, the Federal Reserve has a great liking for statistics. We manufacture a lot of them ourselves, and I think that we make good use of them. We have recently installed an awe-inspiring electronic computer to help us make even more and better use of such data. But there is still a place for human judgment.

There was an old preacher once who told some boys of the Bible lesson he was going to read the next morning. The boys finding the place, glued together the connecting pages. Next morning he read on the bottom of one page: "When Noah was one hundred and twenty years old he took unto himself a wife, who was" - then turning the page - "one hundred and forty cubits long, forty cubits wide, built of gopher-wood, and covered with pitch inside and out." He was naturally puzzled at this. He read it again, verified it, and then said, "My friends, this is the first time I ever met this in the Bible, but I accept it as an evidence of the assertion that we are fearfully and wonderfully made!" Blind faith in numbers can sometimes lead us astray.

I was struck recently with a statement made by the great orator, Edward Everett Hale, nearly eighty years ago "The wealth of the country," he said, "is increasing with such strides that no statistics announce it. As we never know the rapid drift of the raft or ice-floe on which we go and come, we are not ourselves aware, at the moment, of our gains." It is hard for us today to imagine not having statistics to "announce" where we are and how fast we are going. But if we did not have them - if we did not know, for example, that gross national product in 1959 was \$479

billion and that this was 8 per cent above 1958 - I would still find it hard to be a pessimist and take a gloomy view of things.

Hale was impressed by the fact that the simple invention of the friction match had saved for this nation more than twice the amount of labor that went into the building of the Great Pyramids of Egypt. What then would we have to say for this age, the past decade, which has seen such labor-saving technological advances that we can hardly believe them even when we view them with our own eyes? I refer, of course, to such things as the automation revolution, but I might note on the side that the invention of the coffee-break alone has saved Americans more labor than the friction match, which so impressed Hale.

Our problem, it seems to me, is not so much how can we add to our material wealth, but how are we going to use the great wealth that we already have? The question is not how fast and how far, but where to? What are we going to do with our tremendous economic potential?

Interestingly enough, this is precisely the question that Edward Everett Hale posed as the significant question confronting this country back in 1881. To Hale, and no doubt others of his time, it appeared that America had already become the affluent society. It may be hard for us to believe that anyone could really consider as affluent the society Hale was speaking about, which was still pretty well typified by my home town, Broken Bow, Nebraska, during my very early years, where the average working day exceeded ten hours and there were no automobiles or electric lights, to say nothing of electric can openers. But who would be so bold as to say that our grandchildren will not some day regard our descriptions of the affluence of our society in 1960 with amusement? I, for one, fully expect it. In the next decade alone, gross national product is likely to jump from \$479 billion to around \$750 billion.

The area in which progress is much more doubtful is in the improvement of our ability to make the best use of our material bounty. Much of the clamor about growth really



boils down to dissatisfaction about the way in which we are using the wealth we already have. Many of those who say that we need to expand our economy much faster turn out to be people who do not really want more "finny" automobiles and solid gold putters. They want more to be spent on defense, or on education, or on foreign aid or a dozen other things. They are often shocked by the way in which we use the wealth we already have - and who is not, at times? - but they assume that the best way to get it used more intelligently is to get more of it. This has led to the suggestion that we be more aggressive in trying to increase our material wealth at a faster rate, and that we - and here I mean specifically we in the Federal Reserve System - refrain from taking any action that might tend to moderate the speed of the forward motion of this great economy under any conditions.

But is this really the way to obtain a better utilization of our wealth? There is no logical reason to assume that any increase in our incomes in the years immediately ahead will automatically be used in a very different way than our present incomes are being used. The trend might be in the direction of even greater expenditures on ostentatious luxury. Increased income is not the best known cure for profligacy. I fear that those who expect to see what they regard as national profligacy remedied by a more rapid rate of economic growth would be doomed to disappointment in the end.

"Perhaps so," they may reply, "but why not try?" There is, of course, no harm in trying if the methods used to stimulate growth are potentially effective and do not have undesirable side-effects. A number of proposals have been made that deserve consideration; for example, those that would tend to increase saving and investment. Where we are likely to get into trouble is if we try to force saving and investment in order to stimulate faster growth, rather than relying on measures that will get people to want to save and invest more.

There are some who would like to see us try to force growth through what they call "easy money" policies, notwithstanding the probable consequent inflation. This is neither

an effective nor a desirable way of attempting to get faster growth. It would certainly not produce a more desirable spending pattern - more spending on what the critics regard as the worthwhile things of life, more on education, for example, than on tobacco and alcohol - and its arbitrary effects on the distribution of income and purchasing power are by themselves enough to rule it out of consideration by men who respect justice and equity.

I hope that I have not given you the impression that I think all our economic problems can be solved by monetary policy. Far from it! Monetary policy is a powerful influence. But obviously it cannot control such potent factors as public psychology, spending habits, savings habits, public debt and budget, or the pressures from labor, agriculture, and industry groups that result in wage increases and government guarantees or subsidies of one sort or another. The most the Federal Reserve System can do is to promote money and credit conditions that are conducive to economic stability. It can only bring its influence to bear on the economic situation as that situation is created by the actions of businesses, labor, agriculture, consumers and governments.

The task of steering this great economy of ours in some ways resembles the job of the pilot on a Mississippi River boat. Speed is one factor, but the pilot who put speed above safety would be doing his passengers a disservice. The pilot must above all remember that not every passenger in the boat has the same interests, the same desires, the same destination. The destination for one will be Baton Rouge; for another, New Orleans. Some may be impatient to reach a particular destination; others may have no interest in the trip other than the voyage, which they would like to be smooth and leisurely. For the river boat itself, every "destination" is merely a point passed on a ceaseless journey. Its goal is not to attain some final mooring and rest ever after in peace and contentment. Nor is it to be ever dashing for the finish line in an imaginary race that has no ending. Its function, like the function of our economic system, is to serve the diverse wishes of the people who are aboard, compromising the desires of those

who want speed and excitement with those who want serenity and safety. The piloting of our economic river boat is a complex job. There may be occasions that call for an extra burst of steam, but the pilot must be concerned primarily with maintaining efficient and safe performance over a very long haul. He must realize that "where to" is perhaps even more important than "how fast".