ECONOMIC GROWTH

Commencement address by Chas. N. Shepardson, Member, Board of Governors, Federal Reserve System, at the Summer Session, Colorado State University, Fort Collins, Colorado, on August 14, 1959.

First, Mr. President, let me express to you, to the members of the Board, and to the faculty my appreciation for the honor extended to me today and for the privilege of addressing my soon-to-be fellow alumni on this occasion. For one who studied, played, taught and coached here, the temptation to indulge in nostalgic reminiscences is strong indeed.

You might better understand what it means to me when I remind you that I grew up literally in the shadow of this campus for I lived in the little white frame house across the street from the old Mechanical Engineering Building. I could talk of the changes in the physical plant. When we moved here in 1901, the campus consisted of the old red brick buildings east of the track, the old Mechanical Engineering Building and the Health Center, which then housed the Commercial School. Incidentally, the basement was used as a stable for the team of horses used to cut the lawn and haul trash from the campus. Colorado Field and the rest of the campus west of the track were all part of the farm. I don't have the figures but I would guess that the new Engineering Building alone cost more than the entire investment in the physical plant at that time.

I could recall some of the interesting events in our athletic history, including the first baseball championship in 1905 on old Durkee Field, where the men's gym now stands, and our first football championships in 1915 and 1916 in which it was my privilege to participate. Except for the fact that not so many care whether the freshman team wins or not, or at least the coach

isn't under such pressure if he loses, I might even brag about the fact that we lost only one game in the seven years that I coached the freshmen.

I could remind you of the growth in enrollment, in the staff, and in the breadth and quality of training offered but you who have been here recently know the present stature of the University more intimately than I. I shall only add that in the vital matter of faculty, we have always had a great staff. My mother ran a faculty boarding table during all of my school and college years and I was privileged to be intimately acquainted with and stimulated by a large number of inspired and dedicated teachers. I want to assure you that they had their part in whatever success I may have achieved, and though many of them have passed away I welcome this opportunity to pay this tribute to them. Many of the graduate students in this class are teachers and doubtless some of you seniors will also be teachers. As a former teacher myself, I can assure you that, except for the success of your own family, there is nothing more rewarding than to be able honestly to feel that you have contributed something to the mental, moral and spiritual development of the students whom you are privileged to serve.

But these are memories with which I shall not further indulge myself or bore you for this is Commencement Day, a day for looking forward to the new problems, responsibilities, and opportunities that await you as you leave the campus for other fields. Nor shall I regale you with glowing promises of what the future holds either for you as individuals or for the country as a whole. Rather, I should like to direct your thinking for a few minutes to what I consider one of the major problems confronting us today. It is one that is being widely discussed in the halls of Congress, in the press, and among

economists, and one in which you must inevitably be interested as you look to your own future. I refer to the problem of maintaining sustainable economic growth, which encompasses the problem of keeping open and widening the doors of opportunity for all.

In doing so, I come to you not as an economist but as one, like most of you, trained in the field of production technology. I have chosen this topic because during forty-two years as student and staff member of four different Land-Grant institutions I came to recognize the tendency of both students and staff in a technological institution to become so immersed in the problems of technology that they are prone to overlook the social and economic impact of technological developments on our society. In fact, it was the recognition of this that directed my activities along the lines that led to my present position. But enough of introduction--let us turn our attention for a few minutes to the problem of economic growth.

What do we mean by economic growth? First, there is the growth essential to maintain the current per capita level of goods and services for an expanding population. Of more importance to the continued improvement of our economic well-being, or standard of living, if you please, is the growth in productivity or output per hour of human labor whereby we have constantly expanded the variety and amount of available goods and services on a per capita as well as a total basis and have also increased our leisure time.

Here, let me remind you that the growth of an economy or any segment of an economy is like growth in nature--it doesn't, it cannot proceed at a uniform rate. It is inherent in the nature of any economy that various segments will proceed at an accelerated pace from time to time and that other segments,

due to adjustments, dislocations, or a variety of environmental factors, may from time to time be retarded in their growth.

There are two benefits arising from this type of fluctuating growth. It affords an opportunity for the more effective reallocation of labor and resources to those things which may be in greatest need or greatest demand at the moment. Also, in periods of lessened activity in first one segment of our economy and then another, we have the opportunity to make those adjustments essential to the maintenance of productive efficiency and a sound financial structure. While nobody wants to see these periods of lessened activity develop to an excess, we must always expect that there will be variations in the rate, the timing, the location of these increases in activity, and a corresponding redistribution of our resources to meet changing current demands.

What then are the essentials for this type of growth? First, growth in productivity is dependent upon a dynamic technology, one that is free to explore new opportunities, new materials, new methods, and new applications of mechanical power in substitution for human labor.

We have been favorably blessed in this country with that freedom of opportunity. We have been blessed with a spirit of inquisitiveness, the spirit of the pioneer who was willing to venture into the unknown, looking for new opportunities. That has been back of the great growth throughout the life of this country -- the spirit of change, the willingness to accept change. Such changes obviously produce dislocations, some of them painful, and they must be limited to the rate at which they can be assimilated. Yet they are inherent in our over-all growth. Unfortunately, we have people in

some segments of our economy who would resist change. This resistance to change is as futile as an effort to build a dam to stop forever the flow of a river. With all of our engineering skill and with all of the fine dams we have built, nobody yet has found out how to build a dam that can stop for any period of time the inexorable flow of a river. Neither can we stop the flow of new ideas, of new developments, and always if those new developments have merit they will find acceptance.

Our job, then, is to facilitate the readjustments that they bring about rather than to try to stem them. If it means reallocation of resources, that is the thing we must have. If it means a reallocation of labor, facilitating the mobility of labor and the retraining of labor to the new opportunities that are developing, that is all a part of the program of a dynamic economy. There is no need to enumerate illustrations. You all know of the number of things that are commonplace today which only yesterday were the figments of the imagination of the researcher. We faced a limited land frontier some years ago. But no man can predict the limit of the frontier of new ideas, and therein lies our opportunity for growth.

One of the problems with which we are confronted today, particularly in the matter of unemployment, is the problem of immobility. This is something that we in agriculture have faced over a good many years. As agricultural productivity has increased, there has been a constant drift from farming to other enterprises. But the areas of agriculture where we find the greatest economic distress are those in which immobility of labor has been most difficult to overcome. One of the constructive

programs in agriculture today is the Rural Development Program, which is aimed at providing, first, opportunity in the area for alternative employment, and, second, training for those new employment opportunities.

This resistance to change and to mobility of labor is also reflected in the featherbedding rules of some labor unions. It is one of the great problems affecting growth and is depriving the community as a whole of the fruits of increased productivity that might otherwise be available. It is in fact a problem calling for community action to facilitate the further training or retraining of labor. It also calls for study of the problem of transferability of pension rights.

Another thing that is essential to growth is well-distributed income -- purchasing power that will enable the mass of our consumers to have the benefits of these new goods and services that are being made available.

Fortunately, we have at present the highest level of personal income on record. We also have a reasonably well-distributed level of income. Of course, I would not indicate for a moment that we have achieved our objectives but at least the trend is in the right direction. It seems to me, however, that in recent years we have overlooked one of the most effective means of more equitable distribution in the way we have looked at the claims on the fruits of productivity.

Increased productivity results largely from increased capital investment in new methods and equipment, and capital must have its share of the fruits of productivity if we are to encourage the investment of capital for further improvement.

Increases in productivity also call for improvement in the training and skills of labor, and labor is entitled to a fair share of productivity. Incidentally, the rising demand for higher skills and the decreasing demand for unskilled labor is an important factor in the better distribution of income. One of the unfortunate things today is what appears to be a widespread acceptance of the belief that as long as wage demands do not exceed productivity everything is all right. This is a position that we cannot accept.

By and large, we have recognized these claims of capital and labor although there has been a constant conflict between them as to how much of the share each should receive.

We seem to have forgotten, however, a third important claimant, first, as a matter of equity, and, second, as a matter of achieving our objective of an improved standard of living for all. I refer, of course, to the public. On the first point, much of our productivity gain is dependent on education and other government facilities provided through taxation out of the public's purse. Allocation of this cost, together with the most equitable and widespread distribution of the fruits of productivity, can best be assured through price adjustments geared to the lower costs that increased productivity should achieve.

It matters little whether you increase the amount of money in a man's pocket or decrease the price of the commodity that he is interested in buying insofar as his purchasing power is concerned because one is the reciprocal of the other. Some would say that all we need to do is to increase the money supply or personal income. That might be all right if

there were a way of distributing increased income equitably to everyone. However, it just doesn't work that way. We have some segments of the population who can and have commanded a disproportionate share of productivity gains. Unfortunately, we also have large segments of relatively fixed-income people who receive little benefit and then only after considerable lag. In some cases their purchasing power may actually be restricted rather than broadened.

We have just been through a recession and we have come out of it faster and at a higher level than most folks anticipated. During that time we got many corrections, particularly in increased efficiency and in the elimination of waste. However, one correction usually inherent in such a swing in the economy we did not get -- and that was the matter of price adjustments. Most of those that we did get were increases rather than decreases due, partially at least, to rising costs of labor that largely or wholly offset other cost reductions.

After all, if you are to have growth, you have to broaden the potential consumer use. That can be done more effectively and on a more objective and less discriminating basis through price adjustments than any other way.

There must also be a responsiveness to consumer demand. Too many times we get so concerned about wanting to sell the things we want to produce that we lose sight of what the consumer wants. No man, no company, no industry has a right to expect a market for what he wants to produce in the volume he wants to produce, at the price he wants, unless there is a consumer acceptance of that product at that price. We must

serve the needs and desires of the consumer if we are going to have a constructive, healthy growth in our economy. We do not serve those needs or the public interest by demanding support for the thing we would like to do just because we would like to do it, whether the society has need for those goods or services or not.

I mentioned earlier that growth through productivity is dependent upon capital investment for new facilities, new equipment, new materials. Therefore, we must have a continual flow of savings into investment. How do we get that? There are two things which I believe are essential. If we expect to have a flow of savings, we must have conditions conducive to confidence in the future value of those savings. No man is going to save for tomorrow if he expects tomorrow's value to be less than it is today. At the present time there is a lot of discussion about interest rates. I need not tell you that interest is the price of money and that one man's interest cost is another man's interest income. Unless there is a return on money that provides the inducement not only to save but also to risk one's savings in an investment, we will not continue to have the flow of savings or the confidence in the value of money that we require for a healthy, growing economy.

And, finally, if we would have a sustainable economic growth, we must have not only a confidence in the future but a willingness to discipline ourselves and to ferret out and curb those excesses that may lead to economic stagnation or recession. Important as adequate water is to the growth of a crop, we all know that too much water may stunt or destroy it. In the same way, excessive demands for wages by labor or prices by business,

demands for government services in excess of the amount we are willing to pay in taxes, or indulgence of our own desires in excess of our earning capacity can all lead to a stunted growth of our economy.

All organized society is dependent upon discipline, either the intelligent self-discipline of free citizens or the superimposed discipline of a dictator. Otherwise there is anarchy. We fought two World Wars and are heavily engaged in defense against the possibility of a third to avoid the threat of dictatorship. Let not those struggles be in vain through our failure to exercise the intelligent self-discipline so essential to the maintenance of the free enterprise system on which this country was founded and on which its future depends.

The habits acquired in nearly forty years of counseling students are hard to break and I trust you will pardon me if I close with this bit of advice. This has always been a land of opportunity. While maintaining a prudent regard for security, never let your concern about security blind you to new opportunities for greater service. Face each assignment you undertake as though it were the last one you would ever hold and give it your best. The world is looking for doers and new opportunities will come to those who earn them. Just be sure you are ready and alert to them when they appear.

- - -