

CHANGES AND CHALLENGES

Remarks of Monroe Kimbrel

First Vice President, Federal Reserve Bank of Atlanta

at the

Annual Dinner Meeting

of the

Athens Area Chamber of Commerce

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I was truly delighted when Ed Benson asked me to meet with you tonight. Part of the reason is evident in what he has said in his most kind introduction, when you consider that most of my business life has been spent within 100 miles of the Classic City. And, of course, throughout the past 31 years, my life has been enriched by the experiences and friendships that I enjoyed during my college days here at the University.

For me, therefore, this is indeed a home-coming--and one in which I am happy to be a part of the progress that "our city", our University, our State, and our Region have made in recent years. More than this, however, I am glad to have the opportunity to measure with you the changing problems and the conditions under which we can achieve further progress. Whatever pride we take in our region is only a reflection of what groups of individuals such as you are doing. For it is individual effort that really counts,

whether it is focused and coordinated through the Chamber of Commerce, the Rotary Club, or other organizations.

I am sure that all of you know what an enthusiastic booster you have in Ed Benson, who is so interested in further expansion of your "Advancing Athens" Program. I think it is a tremendous tribute to all of you that this program was among the handful of finalists in the All American Cities Awards program of the National Municipal League and Look magazine. This program and its results provide an excellent medium for us to think together about the economic setting in which so much has been done and in turn to examine our common objectives for the future. It is one of those nice occurrences that your program, my affiliation with the Federal Reserve Bank of Atlanta, and our tremendous regional and national economic growth period coincided.

I believe that I can best serve you tonight by reviewing the economic and financial setting in which your individual efforts have accomplished so much. In doing so it will be my purpose to emphasize the challenge and opportunity which lies ahead as this setting has changed over the past year. I hope that such a review will permit us to look forward with better understanding of the recent past and with more confidence in our planning.

For a beginning, let me borrow a quote from your "Advancing Athens" presentation: "As recently as 1960, the city's economic and civic activities dragged. Her problems raced ahead, while her potential lay virtually untouched." Looking back from where we now are, it is surprising how much of this quotation could be applied to the national scene. Take our total output, for example--there was no growth at all in the \$500 billion Gross National Product during 1960 as measured in current

dollars. Viewed in real terms (that is in stable prices based on 1958) there was an actual decline in real product. Unemployment was increasing and was to rise to over 7 percent by mid-1961. Unused manufacturing capacity in early 1961 accounted for more than one-fifth of total capacity. Other evidences of under-utilization could be cited--but the point is clear: Our national economy was just loafing along, suffering badly from a shortage of final demand.

Just as you folks, working together, dug into the city's problems and developed a balanced plan for improvement, steps were being taken at the national level to stimulate economic growth. I will not detail all the fiscal changes that were made, because you are familiar with most of them, but this point I do want to make clearly: The monetary authorities took positive and aggressive action to insure that your efforts and those of others throughout both the private and public

sector, were not hindered for lack of credit. It is the proper function of a central bank to create credit to replace savings which are not being invested or when substantial amounts of resources are not being utilized in the economy. And in 1960-61 there was ample evidence that more purchasing power could safely be made available in view of the under-utilization of resources I have sketched above.

Of course, in doing this we were constrained by the growing outflow of gold and a continued balance of payments problem. Short term interest rates could not be lowered as much as they had been in previous periods of monetary expansion. But long-term rates could be--and were--lowered relatively more than they had been in previous periods. Let me give you an example that is close to home of what this meant:

During your five-year program you were encouraging the formation of industrial parks, creating your Planning and

Development Commission, undertaking major urban renewal projects, and improving your education plant. You were building modern hospitals and expanding the city's water and sewage system to accommodate further growth. You were doing other things that cost a lot of money--and therefore you were selling bonds during most of these years. Your large bond issue in 1960 had carried a net interest cost just short of 4.0 percent. By mid-1961 when you sold a relatively small issue of somewhat shorter maturity, your cost was down to an average of 3.25 percent. From then until this year, your net interest costs on several bond issues have been below 3.40 percent.

In early 1966 you sold another issue of bonds, still carrying your nice A rating, but this one cost 4.02 percent. And if you had gone to market

any time within the past three to four months, you would have had to pay from 4.30 to 4.65 percent.

This downward pattern of rate behavior through early 1965 was generally seen in most other forms of credit and was a major factor in stimulating and sustaining the longest period of expansion in our history. I don't intend to throw too many statistics at you but let's just look at a few key items, on a national basis:

In 5 years the Gross National Product rose by \$240 billion.

Unemployment declined from 7 to less than 4 percent of the labor force.

Manufacturing capacity rose sharply and its utilization rate climbed from around 80 to above 93 percent.

The combination of fiscal and monetary policy which evolved between late 1960 and the end of 1965 was especially stimulative to areas such as ours,

which have great potential but chronic capital shortage. Fiscal measures during this expansion put new steam into growth of private investment spending. Lightening of the individual's tax burden as incomes expanded, together with sharp shifts in population, helped to improve the region as a market. Other factors, such as expanded defense and space expenditures, also helped in the growth process, as did the concerted will and effective programs of improvement at the local level.

It was thus virtually certain that with the liberal expansion of the money supply and the bank credit base, areas which had been relatively undersupplied with capital would be in an improving situation. Our region and our state were outstanding in attracting new industry, in expanding existing plants, providing more and better jobs for our growing population, and in improving our capacity to service debt. Our access to the

national capital markets was vastly improved as our bankers, mortgage bankers, savings and loan men, and others made positive and fruitful efforts to serve their communities' needs.

These and other factors combined to enable our region, and within it our state of Georgia, to outstrip the national average in rate of gain in most of the meaningful measures of economic progress. Just let me give you a few examples of these, omitting the numbers, between the year-end 1960 and 1965. Georgia led the region and the U. S. averages in population growth, in total personal income growth, per capita income growth, gains in non-farm employment, in construction employment, and in bank deposit expansion.

Something else happened during this period-- the South's economic structure accelerated its trend, long underway, to become more and more like that of the nation as a whole. It was therefore more closely tied to the changing economic and

financial developments of national scope. And this brings us to the events of late 1965-1966 and to the question of whether we can expect as much further growth in the South in the years ahead. I think we can--if we go after it resolutely and exploit our best advantages. Let me come back to this point in a moment.

What happened in the last 18 months was that we as a nation achieved a long-sought goal of virtual full employment--and were getting close to dangerous price consequences. This meant that in the ebullient state of mind prevalent in late 1965 and early 1966 we faced a situation in which "everyone seemed to want more of everything at the same time." Demand was growing more rapidly than the ability to produce goods and services. Price behavior was clearly signalling, in late 1965, that an unhappy choice had to be faced. Either do battle with inflation in the financial arena or

face a tougher fight in the market place for real goods and services. We knew there would be problems in our choice, but we also knew our responsibility and we believed that the casualty rate would be lower if the stand were made in the credit arena. I will leave it to others to evaluate our methods and the results.

We seem to have passed the peak of pressures in our financial markets and a cooling off has recently been evident in many markets for goods and services. Interest rates have been retreating from their 40-year highs of late summer-early fall, although they remain at levels substantially higher than during the 1961-1965 period. Further adjustments in the flows of resources, particularly to Defense needs, appear likely.

Clearly we face conditions which are greatly different from those in which you have done so much in advancing your community. Some of your plans for the future may be more difficult to

achieve. But the challenges are less formidable when we balance them against the solid achievements and the improved conditions now as contrasted with those of six years ago.

There are a number of outstanding improvements to which we can look for inspiration and assistance as we go about our individual efforts to improve our region and our community. Let me just point out a few of these, beginning at the international level and working through to the community level:

We have made substantial progress in coping with the balance of payments problem, and I believe it is being viewed more realistically than in some past periods. Interest rates abroad are trending downward and should be of help in the year ahead as monetary policy wrestles with the balancing of domestic and international considerations.

We have a better balance between

fiscal and monetary policy at the national level than at some periods in the past. The dedication to achievement of growth in employment opportunities, rising incomes, and stable prices remains intact and we are learning more every day about the proper means to cope with a high employment economy.

We have achieved giant strides in revitalizing our region and in upgrading and diversifying the employment opportunities open to our citizens. Our state and local governments have become increasingly aware of the need for improvements in education, health and recreation services, and the ever-broadening mix of services necessary for balanced progress.

We have a greatly strengthened network of local and regional financial institutions and a substantial addition to our

family of national institutions which have invested in our further progress through branch offices and facilities. These institutions are increasingly guided by public spirited citizens with a vital outlook on regional development and stand ready to aid you in your efforts.

And finally, throughout Georgia and the Southeast, we have dedicated groups of individuals like you who are not going to let a temporary period of economic readjustment stand in the way of giving to their communities the best in leadership and in achievement.