

A QUESTION OF PRIORITIES

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by

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Ten years ago, as all of us remember, a great many people were talking about how Americans could look forward to the soaring and scintillating '60s. We were then reviewing our progress during the '50s, and most of us were concluding that the advances of the '50s were only a prelude to a much greater advance during the '60s.

We were told in glowing terms of the new and better life to which all of us could look forward. Our economy had demonstrated its capability for producing more and more not only of the necessities but of what some persons call the good things of life. We had been witnessing major scientific and technological breakthroughs. Partly as a result of this, productivity was increasing, and there were those who even thought that not only would poverty disappear but that the primary problem in the future might be too much affluence. With more and more goods and services available, some people suggested that most of our social problems arising from poverty and related matters would disappear.

When we look back to see what actually happened during the 1960s, we can indeed point to some remarkable economic progress. I might take, for example, a projection made in our Bank's publication in 1960 about income growth in the part of the South served by the Federal Reserve Bank of Atlanta. It was suggested that the 1960s would witness further progress

toward attaining a level of income for the people of the area more nearly equal to that of the rest of the United States. If all went well, it was concluded that by the end of the decade per capita income in the Sixth Federal Reserve District should reach 77.5 percent of the national average. In terms of 1959 dollars, this would mean an increase in per capita income of around \$650.

Last year, according to preliminary estimates, income in the Sixth District had expanded to a point where per capita income was about 78 percent of the national figure. In terms of 1959 dollars, per capita income increased by \$672. Thus, the aspiration for higher income for Southerners was, to a major extent, realized.

In the last ten years personal income in Georgia has increased on a per capita basis by 87 percent and last year was probably about 81 percent of the national average, compared with 79 percent in 1959.

The substantial growth of income in the South reflects the economic developments taking place throughout the nation. The Gross National Product, a measure of the nation's total output of goods and services, last year measured in dollars of constant purchasing power was about 50 percent greater than ten years earlier. On a per capita basis, after payment of taxes and measured in dollars of constant purchasing power, disposable income was about a third greater last year than in 1959. Somehow or other, we have been able to produce enough not only to take care of the population's growth from 178 million in 1959 to around 203 million last year but also to improve the economic condition of the average person. To do this, 13 million new civilian jobs were provided.

This economic growth was in turn made possible by a massive program of capital investment that increased the ability of the nation's manufacturing

industries to produce by almost 60 percent and raised the output per man-hour in all types of occupations by about one-third.

Along with this capital investment have come major and revolutionary changes in science and the application of science. The most dramatic of these has been the development of the space program. It was not so long ago on May 5, 1961, that Alan Shepard made the first suborbital flight launched from the United States. John Glenn followed with an orbital flight in February of the next year. Our astronauts first circled the moon in Apollo 8 on December 24-25, 1968, and then landed on the moon only a little over eight months ago. If our scientists and technicians could accomplish this, could we not reasonably expect equally fantastic social and economic improvements?

Yes, indeed, there were many economic advances during the '60s to which we can point with pride. Nevertheless, it sometimes seems that all this scientific and economic progress has left us with more rather than fewer problems. For example, it takes most of us longer to get to and from where we work. Housing needs remain unmet. Not only do we have the problems of the ghetto but the cost of housing has risen so much that the aspiration of being a homeowner cannot be satisfied for many of those with moderate incomes. Lately, we have been told that we are creating a physical environment that will destroy us through pollution. Civil disturbances have become so commonplace that we seem to be able to find a story about such an event in our paper every day, and most of them no longer command headlines. We are going through trying times in respect to our moral values, and there seems to be a growing lack of understanding between the young and the old, the rich and the poor, the blacks and the whites, and other groups.

On the economic front, the American people have demonstrated an inability to manage our economic affairs by having gone through five or more years of inflation. This is the longest period of rising prices that we have had in this country since the beginning of the century.

As the result of this inflation, we find that our dollars today are worth only 79 cents in terms of purchasing power in 1959. These inflationary developments have disorganized our financial markets. They have diminished the incentive to save and invest in fixed-income securities. As a result, they have weakened the ability of our financial intermediaries to supply funds to the purchaser of a home and have squeezed out the small borrower. The inflationary developments and the financial changes that have gone along with them have distorted our capital investment structure toward those projects that in the estimation of some persons are likely to profit most from inflation. All of this has set the stage for what could be a serious period of economic adjustment.

Why did this happen? Why, in spite of the tremendous advances this country has made in production, did we manage to get into all this trouble?

It would take a man far wiser than I to give a complete and valid answer. Nevertheless, it seems to me that a great deal of our troubles stem from the failure of Americans generally to establish and follow priorities.

Perhaps we have been misled by the very real increase in our ability to produce into believing that all problems of the world would be solved by having more and more goods and services. If we can just produce enough, it has been argued, everyone will be happy. There will be no basic conflicts and none of the stresses and strains of civil rights. Crime will disappear, and we shall have domestic and international tranquillity.

I should think that the experience of the '60s should have taught us that having more and more goods and services does not automatically cure our social problems nor insure complete happiness. Our experience of the '60s should have demonstrated that economic progress may be desirable but that it should not be given absolute priority over things that cannot be measured in dollars and cents. If we give sole priority to economic matters, we are likely to compound our troubles.

Perhaps we ought to give more attention to deciding whether or not we should devote more of our energies to solving our social and moral problems rather than concentrating solely on economic needs. Perhaps the day will come when we shall measure progress in terms of how well we have learned to live peaceably together rather than in terms of economic magnitude. Today, however, I am going to stress the difficulties we have got into and may face in the future in dealing with economic priorities.

Another big mistake we made during the past decade was failing to recognize that there was a limit to what our economy could produce. At reasonably full employment our economy could produce about 4 percent more each year because of an increase in the number of workers and improved productivity. This increase alone could have provided us with enough to have taken care of many of what we considered our needs. It was not enough, however, to provide the resources to carry on what turned out to be almost a major war, to provide each one of us with more consumer goods, to expand public programs, to provide for an unprecedented major plant and equipment expansion, and to take care of growing demands for better housing.

Somehow or other, we collectively believed that, if we were to provide enough money by creating credit, we could by magic produce the goods and services to meet all our demands. You will recall that as early as 1966

it was being pointed out by many persons that, if the Federal government was going to carry on its program, it would need to raise taxes. This would be one way of limiting demand to what could be produced. We were faced with the need to establish priorities.

By and large, the American people refused to choose by establishing priorities. Thus, our Congressmen, reflecting what I believe were the desires of their constituents, postponed enacting the surtax package until early 1968. The \$25-billion Federal deficit in 1968, of course, created major demands on the financial markets as the Treasury had to borrow heavily. More importantly, it was striking evidence of the inability of the American people to choose one thing at the expense of another.

Somehow or other, some persons thought that, if only enough credit were provided, they would not have to choose. They forgot that in the long run the nation's credit demands must be provided primarily out of the savings of individuals and businesses. When it is provided through the banking system at a greater rate than the ability of the economy to produce, the increased purchasing power merely pushes up prices.

Priorities, of course, were established, but they were established for us through inflation and high interest rates. These priorities were not always good. In 1968 the nation spent a great deal more. The Gross National Product in current dollars increased about 9.1 percent. But merely spending more did not create goods and services. Capacity limitations kept the real growth--that is, growth measured in terms of constant purchasing power--down to 4.9 percent. In 1969 real growth fell to 2.8 percent compared with the 7.7-percent increase in the Gross National Product measured in inflated dollars. Inflation misallocated resources and reduced the overall productivity of the economy. There was no improvement in productivity during 1969.

Since the credit demands were far greater than could be supplied through the normal savings of the economy, the competition for funds forced interest rates to unprecedentedly high levels. In the process, the normal flow of funds through nonbanking financial institutions was disrupted. In the system of priorities established by inflation, housing suffered, with a major part of the funds going to a capital expansion program by business.

All that is history, even if only recent history. But we cannot escape from history. We are still suffering from our failure as a nation to make a choice between possible alternatives. Indeed, we shall probably suffer from this failure for some time to come. At the moment, however, the question is what order of priority do we contemplate establishing.

We can look forward to a growth in the nation's output of about 4.3 percent a year if the projection made by the Council of Economic Advisers turns out to be correct. This would imply a growth in the labor force of 1.75 percent a year, an unemployment rate of 3.8 percent, a decline in annual average hours of work by one-quarter of 1 percent a year, and an increase in output per man-hour of around 2.8 percent per year.

How will we Americans choose to utilize the potential increase?

We can compile an almost endless list of needs that we think should be satisfied. As consumers, we think we need more and more goods and services. We want better cars, better houses, color TV sets, and trips to Europe, for example. What is more, we want our government to provide many things for us and others.

We have been hearing a lot lately about environmental control, including the elimination of pollution and a better management of our natural resources. We tell our government that we want better education; we need

to improve our methods of controlling crime; we need better care of the aged. Our cities cry out for urban redevelopment, rapid transit, new airports, and better housing. We need to provide for adequate defense; we need to eliminate poverty. With increasing leisure, we need more facilities for recreation. If we are to assure the peace of the world, we need to give help to developing nations.

I am sure that each one of you could add to this list, and I am sure that you could give good reasons for each addition. But you are going to find it very difficult to choose among them.

Difficult as it is, at some point we must determine an appropriate order of priorities. We as a nation must accept that we shall have to forego some gains, benefits, and advantages in order to reap others.

The task of establishing priorities is difficult under any circumstances. But we do have in the American economic system, when it is functioning properly, a very great help. This guide is the market system that can, when functioning properly, reflect the desires of consumers for the kinds of goods and services they prefer. Consumers through the market can tell businessmen which of the many choices they favor. But the market cannot function efficiently under continuing inflationary conditions.

One of the first priorities we should establish, therefore, is bringing inflation under control. When that is done, we shall find that establishing priorities is a much less complex job. We shall still have to face the fact that, if we want more from our government, we shall have to be willing to tax ourselves and consume less unless we want inflation to establish priorities for us. We shall have to assist our elected representatives in choosing among the most worthwhile projects. We shall have to be as eager to commend them when they have made difficult choices as when they announce to us the initiation of a local project.

I am not sure that we the American people have really learned our lesson about the necessity of establishing priorities. Apparently many persons believe that somehow or other we may be relieved of the inevitable consequences of the inflationary period we have been going through. Nevertheless, it is my opinion the nation is close to acting responsibly. It is time to ask ourselves what do we really want as a nation.