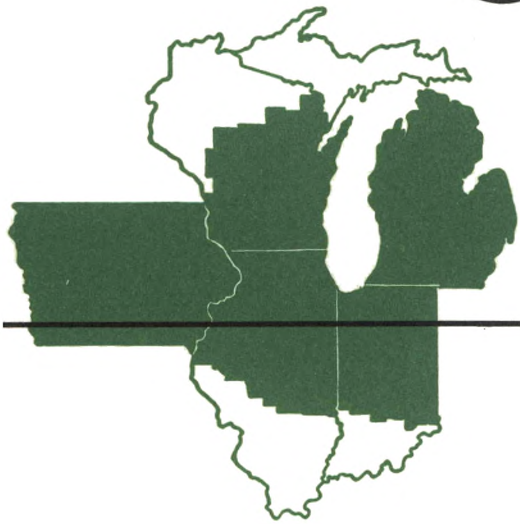
A review by the **Federal Reserve Bank of Chicago**

Business Conditions



1953 December

Contents

THE Trend OF BUSINESS

THE POST-KOREA BOOM has passed its crest, but fears that a sharp downward movement would follow the peak apparently have not been justified. Employment and sales have continued at near record levels, and the financial health of business firms and consumers remains excellent.

In the first half of 1953 there was a general anticipation among business prophets that the period of rapid expansion was about to end. Seldom before had businessmen been prepared so well for "a turn," and its coming has been accepted with composure. Until recently, the timing of the peak was the main question mark. Now it is the duration and amplitude of the downturn.

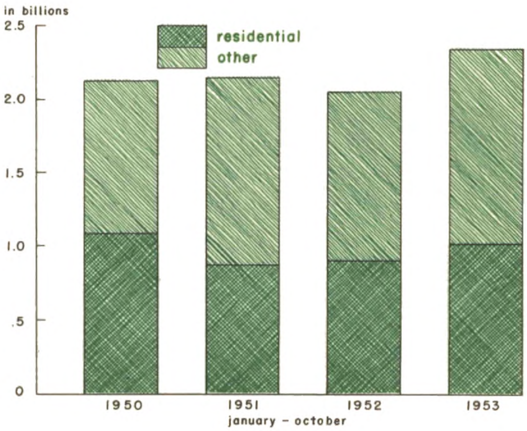
The part played by rising Government outlays on defense in the four-year rise in activity, 1949-1953, is well known. It is less widely realized, however, that the rate of national defense expenditures has shown little tendency to grow since the middle of 1952. The spurt in total activity that continued into the second quarter of 1953 came about largely as a result of forces generated in the private sectors of the economy.

A slowing of the rate of the expansion under way in the early part of this year was in prospect because of the nature of the major contributing factors. The extremely rapid growth of private debt, the fast pace of inventory building, and the rate of accumulation of long-lasting durable goods would not be sustained indefinitely. These developments had come about, in part, as the result of a temporary stimulus—the ending of controls over prices, material use, and consumer credit.

Among the less promising developments of recent months is the course of business sales and inventories. Total business sales have been sliding since April. Aggregate inventories during the same period have been rising steadily. Few businessmen apparently believe that their firms are overstocked, but the continuation of the downward course of sales could result in a further reduction of new orders and additional declines in industrial production. There is some indication, however, that October and November witnessed a reversal of this trend in the retail sector.

Only a few types of manufacturing were operating at a higher rate in the early fall than last spring. Moderate gains have been made by the paper, chemical, oil, and electronics industries. But in some of these lines red flags have already been raised by growing inventories. This absence of solid new strength in any sector

District construction awards show gains through October



suggests further over-all drops in output rather than an early resurgence. Sales and production in most manufacturing industries have been outrunning new orders for many months.

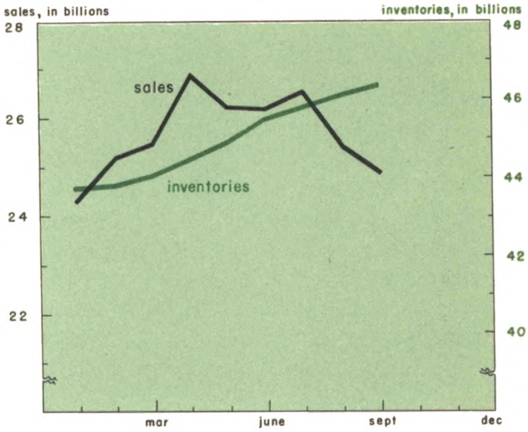
Despite evidence of weakening, the present state of affairs is hardly conducive to deep mourning. Most of the measures which have receded since last spring are still well above year-ago levels which, in turn, were the highest on record up to that time.

Unemployment nationally was estimated to be at a postwar low in October, and unemployment compensation claims were only moderately above last year. Personal income, despite a slight decline, remains on a virtual plateau. An optimistic note has been introduced recently by the high level of construction contract awards and by surveys indicating a very good level of business capital investment next year.

Business investment in new plant and equipment next year will be close to record 1953 according to a McGraw-Hill survey. Manufacturers expect to spend 8 per cent less. Gains in other lines, principally utilities and commercial building, may reduce the prospective over-all drop to a considerably smaller percentage. Last year at this time manufacturers also predicted an 8 per cent drop for 1953, but went on to make greater outlays than ever before. Customarily, surveys of this type have understated actual results in the postwar period, but a recessionary atmosphere could reverse this upward bias.

Construction plans support the optimistic reports on expectations for capital expenditures. A Government projection places next year's construction activity within 2 per cent of the 1953 total. Contract awards reported by F. W. Dodge for the third quarter were about the same as last year's heavy total, and October showed a substantial rise. In the area covered by the Seventh District, total awards for the July-October period were by far the highest ever recorded for a similar time span. Gains over last year's level were shown for most

Manufacturers' sales, inventories show opposite trends



major categories, but heavy construction, such as public works, led the uptrend.

Production of automobiles was at a much lower rate in November than in October. December is not expected to see much rebound. Model change-overs and mounting stocks of cars relative to dealer sales finally brought the long-expected cutbacks. Television set makers had stepped up output vigorously in late summer, but by November a slowdown in sales had brought several announcements of layoffs and substantial price cuts by one major producer.

Retail sales in the August-October period were 3 per cent below the seasonally adjusted total for the previous three months. A substantial portion of this loss was attributed to unseasonably warm weather that prevailed throughout most of the nation. Much fall business in apparel and related lines was lost, but resources available for the purchase of goods customarily obtained later in the year may have been enhanced somewhat by this fact. Preliminary reports for October and November indicate that department store sales, seasonally adjusted, rose from the reduced September level, thus reversing the downward trend under way since last May.

Unemployment outcrops

Easing of the labor market has created pockets of jobless, but total employment remains at record levels.

WIDELY PUBLICIZED REPORTS of layoffs by manufacturing firms create too gloomy a picture of the current state of the labor market. Actually, these scattered reductions in force have made only minor dents in the continuing tight employment situation. In October, the total number at work throughout the nation was the largest on record for that month—62.2 million. This figure was 400,000 greater than the previous high for October, set last year.

Unemployment in October, estimated at less than 1.9 per cent of the labor force, was the lowest since World War II. At first glance sizable layoffs and extremely low unemployment appear to present contrary testimony. This is not necessarily so. Partly for seasonal reasons, national unemployment estimates customarily lag other measures of activity. Hiring in nonmanufacturing lines in the final months of the year tends to offset factory layoffs. Because of these statistical difficulties in using national totals, a more useful insight into the current labor market may be gained by observing conditions in particular localities.

Despite indications that employment, nationally, remains as "full" as ever, the job situation in some Midwest industrial cities has softened appreciably. In general, the localities experiencing a significant amount of unemployment are "one-industry towns" where payrolls have thinned as demand for products such as automobiles and farm implements has slackened. Declining backlogs in many other manufacturing lines suggest that these cities may be leading the way toward a generally easier labor market.

Quit rates in virtually all industries are well below previous levels, indicating that the average worker is experiencing greater difficulty in spotting greener pastures. Although the great majority of employers do not appear to be reducing their staffs, there are very few who are looking forward to a substantial increase. In short, hiring is now largely on a replacement basis. The time of scrambling for the unattached worker has ended.

By and large, layoffs to date have been confined to the unskilled or semiskilled factory worker. White-collar workers remain scarce throughout the nation. Even in Detroit, which has by far the highest unemployment ratio for any large city, it is still extremely difficult for employers to recruit an office or sales staff adequate in numbers and quality. Service establishments such as restaurants and laundries also have hiring problems. Factory workers are often unable to qualify for these positions or are reluctant to accept a lower hourly wage rate.

There are many factory skills still in short supply almost everywhere in the Midwest. Positions for tool and die makers, machinists, sheet metal workers, engineers, and draftsmen are listed as unfilled.

Spotlighting the trouble spots

Durable goods firms in particular are experiencing new-order trouble. It is apparent that demand can now be satisfied through a lower level of output than that of last spring. In part, this represents a reappearance of seasonal trends which have been obscured since before World War II.

Two of the most important hard goods lines, automobiles and farm implements, are heavily concentrated in the five states of Michigan, Indiana, Illinois, Wisconsin, and Iowa. These two industries probably employ 100,000 fewer workers than last spring.

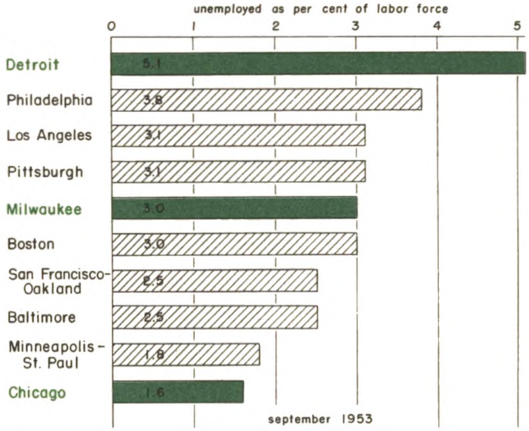
Among the major cities of the nation, Chicago and Detroit represent opposite extremes at the present time with regard to the proportion of the labor force unemployed. *Chicago* has the tightest labor market of any large city in the country. Extensive diversification has allowed the ready absorption of several thousand workers released by factories which have cut back production. In September, unemployment in Chicago was estimated at the extremely small number of 45,000—only 1.6 per cent of its 2.7 million labor force. Many of these persons were between jobs or are handicapped by age or infirmity.

For all practical purposes there is no unemployment in Chicago. Rather there is a substantial surplus of jobs for reasonably well-qualified applicants. Most employers reporting to the Illinois Employment Service in September indicated that they desired to increase employment in the following months. At the present time, therefore, it is obvious that an increase in manufacturing layoffs in the Chicago area would be offset by a rise in hiring by nonmanufacturing lines.

Detroit's employment situation has been reversed since last spring. There are now about 75,000 jobless in the Detroit area, as contrasted with a rock bottom 20,000 last June. Currently, a large number of additional workers are temporarily idle as a result of model change-overs by major automobile producers, but most of these are subject to recall when production is resumed. Part of the unemployment in Detroit is attributed to the now famous fire at the Livonia transmission plant.

In *Milwaukee* unemployment had risen to 13,000 in September, 3 per cent of the labor force, compared with 9,000 a year ago. Moreover, there has probably been a further increase since that time because of a seasonal influx of workers from farms and resorts and because employers reported their needs to be falling gradually. Contrary to the opinion of the television audience, beer is far less important to Milwaukee than such industries as machinery and transportation equipment which account for almost half of the manufacturing production workers in that city. Like Detroit, Milwaukee had been among the areas of labor shortage until record levels of production began to melt order backlogs.

Chicago and Detroit jobless ratios at opposite extremes among large cities



Moderate labor surpluses now exist in *Racine, Kenosha,* the *Davenport–Rock Island–Moline* area, *Peoria,* and *South Bend.* In the Illinois cities, unemployment is about 3 or 4 per cent of the labor force, no greater than last year when the situation was clouded by the aftermath of the steel strike. Some improvement can be expected in the months ahead as demand for farm implements picks up seasonally. Racine, another city specializing in farm machinery, also reports 3-4 per cent unemployed. Employment in Racine has been bolstered recently, however, by a rise in hirings for defense work on electrical apparatus. The increase in the number of unemployed in these cities has been limited by withdrawals from the local labor market and by absorption in other lines of work.

In *South Bend* and *Kenosha,* afflicted by automotive layoffs, many workers have obtained other jobs or have removed themselves from the local labor force. South Bend appears to have adjusted to a lower automotive output level. The 8 per cent unemployment estimated for Kenosha in October is expected to decline slightly, as some types of hiring are stepped up and as more late-comers are shaken out of what had been an exceptionally tight labor market. Meanwhile, hiring rates are said to be at a five-year low.

The labor force adjusts

Automobile and farm machinery cities usually experience far less unemployment than would be indicated by layoffs reported by these establishments. In part this is because short-term layoffs are not considered to result in "unemployment." But even when indefinite separations occur, a reduction in staff of several thousand factory workers may result in a rise in the number of job seekers of only about one-third that number. This is because of out-migration, a shift to other jobs within the community, and a withdrawal of some workers from the labor force.

Large manufacturers in industries whose employment totals fluctuate widely customarily send recruiting teams to areas of labor surplus, usually in the South, when employment needs are particularly great. In the Thirties, the shift to Michigan from Arkansas and Kentucky and back again was an annual process. Since World War II, except for the unemployment period of 1951 and 1952 when civilian use of metal was restricted, in-migration has been a one way street. Now, resumption of the trek southward appears to many as a return to a seasonal pattern which was bound to be reasserted sooner or later.

Employment shifts also occur within these cities. The news that "the plant" is hiring and that overtime is being paid usually attracts individuals holding less desirable jobs in other lines, persons who do not choose to work steadily, and some self-employed, including members of nearby farm families. When the pink slips appear, these people once again relocate in nonmanufacturing lines, resume household chores, or devote full time to their own businesses.

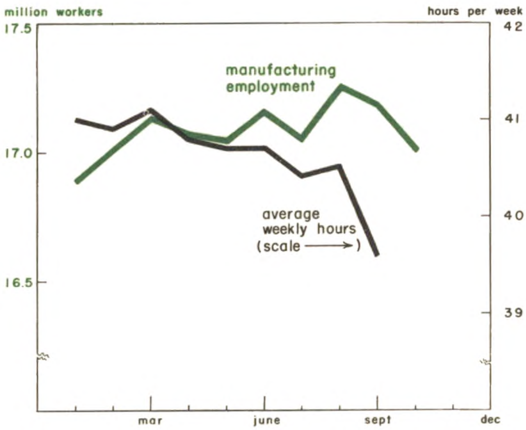
There is a widespread belief that recent months have constituted a period of "overemployment." This has caused local experts to view the spurt in unemployment in these centers with relative calm. It will take some time, they say, for the situation to "shake-out." Thus, over 5 per cent of the labor force unemployed in Detroit or 8 per cent in Kenosha is not considered "serious," whereas a similar proportion in Chicago, Indianapolis, or Milwaukee would be cause for alarm.

Manufacturing—the end of the lever

Factory workers constitute less than 30 per cent of the nation's working force, but the importance of this segment should not be underestimated. Retailing, for example, is highly sensitive to the spending of factory workers.

The merchant draws small comfort from the thought that his city's unemployment rate has not become "serious" because his customers have left the vicinity. Shorter hours and a shift

Manufacturing employment begins to ease as drop in work week continues



of factory workers to lower paying jobs also mean less spending, regardless of the immediate effect upon unemployment totals.

Manufacturing employment moves up and down more rapidly and more sharply than does employment generally. Moreover, factory payrolls are reduced more than proportionately when hours are cut and overtime pay is reduced.

Most manufacturers prefer to keep the regularly scheduled work week at 40 hours for reasons of efficiency. Increasingly, however, there are reports of work weeks cut back to 32 hours or less. In some cases this effort to share the work is dictated by a desire to prevent hardship in a community dependent upon a given firm, but the benefits derived from maintaining a trained work force intact are also important. Some diversified firms have been able to shift workers from one line to another and thereby maintain employment.

Employment and unemployment

Changes in the number of unemployed, defined as those without jobs and seeking work, tend to lag most other statistical measures of business activity.

One reason for this lag in unemployment estimates is that all those working a minimum of 15 hours a week and those laid off but subject to a definite recall are considered to be employed. Another is that nonmanufacturing firms which have had trouble competing with factories for available workers are able to blot up unemployment, initially at least, as layoffs occur. Even more important at the present time is the seasonal rise in hirings of trade firms and service establishments as the Christmas season approaches. Thus a substantial rise in the number of jobless before year-end is unlikely.

Unemployment totals, although of limited usefulness for charting the future, still constitute one of the best means of judging the current health of the economic structure. On this basis, the diagnosis remains favorable.

The marketing margin for food

Like death and taxes, farm-to-retail price spreads are here to stay.

SELDOM do farmers and consumers deal directly with each other. Between them stand a myriad of specialized firms providing such necessary services as transportation, grading, storage, processing, packing, and distribution. Collectively, they have been labeled "middlemen."

Farmers sell their products to such firms; consumers buy from them. When either farmers or consumers become acutely unhappy with prices, "middlemen" know that a political storm is brewing and that marketing margins —the spread between prices paid by consumers at retail and prices received by farmers—soon will be investigated.

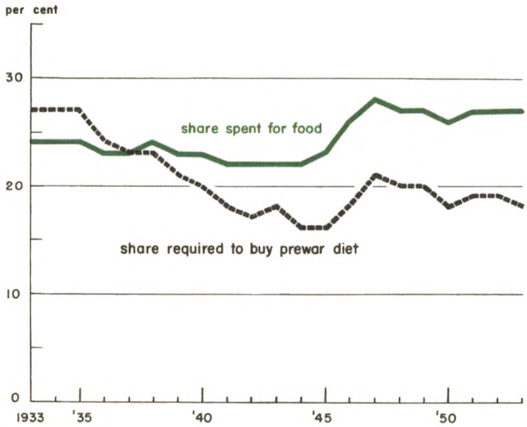
Such a storm has been touched off again by the decline in prices received by farmers since 1951 and the accompanying over-all stability of food prices at retail. Over short periods of time, it is undoubtedly possible for marketing margins to be excessive. But over the long run, marketing margins reflect consumer demand for specialized marketing services and the cost of providing such services.

Consumers demand more services

In the aggregate, consumers spend a comparatively stable share of their disposable income (income after personal taxes) for food. During the past 25 years this share has varied within a range of 23 to 28 cents per dollar of consumer income. In the past 8 years the range has been even narrower: 26 to 28 cents per dollar.

Over the past quarter-century incomes have

Consumers spend about one-fourth of their disposable income for food, although prewar diet would take less



risen sharply, and consumer expenditures for food have increased correspondingly. However, these larger expenditures have not been used to increase the physical quantity of food consumption per capita. Rather, there has been an upgrading in the quality of foods purchased, as well as an increased demand for convenience and attractiveness in food items.

Thus, although consumers are now spending a slightly larger proportion of their income for food than they did before World War II, the same kinds and quantities of food they bought in the prewar period would take a smaller proportion of their income now than it did then (see chart). In other words, as incomes have increased, consumers generally have been buying more expensive foods, and these frequently embody more marketing services.

For example, the consumption of cake has not only risen compared with the consumption of bread, but also there has been a change in the form in which the cake ingredients are purchased. Housewives are now buying cake mix rather than the separate ingredients: eggs, flour, etc. The cake mix is more convenient. And considering housewives' skills, it may be that the use of mix results in a higher average quality of cake.

Recognizing the strong consumer preference for convenience, quality, and attractiveness, food-processing firms have invested large amounts of effort and money in order to tap this market. Their success is attested by the continual introduction of new products and new methods of merchandising old products.

The expansion of marketing services in relation to farm production is illustrated by shifts in the number of workers in agriculture and in marketing. During the last 20 years the number of workers in agriculture decreased by about 30 per cent, while the number engaged in marketing farm products probably increased by more than 30 per cent. More workers are now engaged in the marketing of farm products than in their initial production.

Cost of service has risen

Even if the cost of providing a unit of marketing service had remained the same during the past 25 years, the total charge for marketing farm products would have increased simply because the volume of marketing services has been expanded sharply. However, the cost of providing a unit of market service has risen, especially since World War II. Consequently, marketing margins have widened much more than would otherwise have been the case.

The spread between the retail price of a product and its farm value represents the gross return received by all marketing agencies—their costs, taxes, and profits. Short-term changes in the margin may not correspond closely to changes in marketing costs. According to USDA, this is especially true for meat products, eggs, and fresh fruits and vegetables—all of which have relatively volatile prices. But over a longer period of time the margin tends to parallel the costs of marketing.

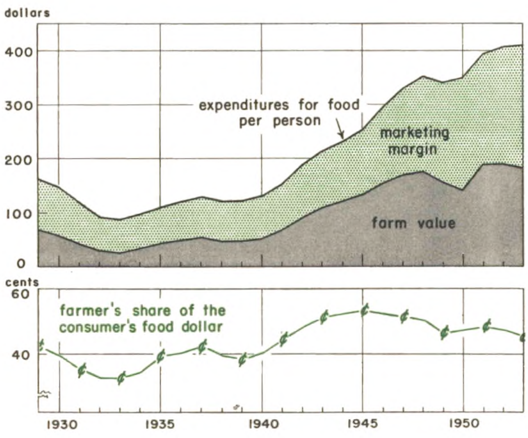
Marketing costs are inflexible

Farm prices are relatively volatile. However, marketing services, like most nonfarm products, are characterized by "administered" prices. Marketing costs, like production costs in farming, are relatively inflexible.

For example, salary and wage costs incurred by firms engaged in assembling, processing, and distributing farm-produced foods accounted for more than 50 per cent of the total cost of marketing these products in recent years. Wage rates are set in a labor market heavily influenced by collective bargaining between unions and employers. These rates are institutionalized, and when they flex they tend to flex upward. An increase in the supply of a food product that causes a decline in its farm price cannot be expected to affect the wage rates of laborers employed by agencies that market the product.

During a period of general price inflation, farm prices respond quickly while marketing margins rise more slowly. On the other hand, during periods of reduced demand, farm prices drop quickly while marketing margins may not respond at all. Since World War I, marketing margins declined substantially only during the severe deflations of 1920-21 and the early 1930's. Even during these periods the reduction in margins was slower and considerably smaller than the decline in farm prices. Today there are more institutional rigidities in the marketing structure than ever before. Consequently, any substantial narrowing of marketing margins does not appear likely in the near future.

Marketing margin more rigid than farm value of food, although margin has widened in recent years



Margins vary for different foods

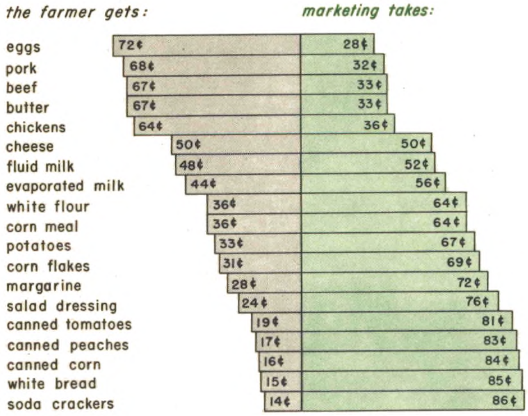
Up to this point the marketing margin for foods in the aggregate has been considered. Of course, the margins differ greatly for different types of foods, depending on the amount of service required to get the product to the consumer in the form desired, as well as the cost of providing that service. Also, margins for some foods are more flexible than for others, and occasionally the margin for an individual product will move counter to the over-all trend. But in general, the smaller the marketing margin, the closer should be the correspondence between price movements at the retail and farm levels.

The retail value of meats and other animal products is relatively high compared with the cost of providing marketing services demanded by consumers. For these foods, the farmer receives about 65 to 70 cents out of the consumer's retail food dollar. On the other hand, for bread and canned fruits and vegetables, the farmer receives only 15 to 20 cents out of the consumer's dollar. Hence, for animal products, retail prices can be expected to fluctuate, percentagewise, about the same as farm prices, although there usually is a time lag. On the other hand, fluctuations in the farm price of wheat may have no discernible effect on the price of bread.

Progress at retail

As the marketing of food is traced through its various stages from the farmer's field to the consumer's kitchen, it is usually found that the widest dollar margin is associated with retailing. In other words, retailing is typically the most expensive marketing service. But it is also

The farmer gets the largest share of the consumer's dollar for animal products



here that the greatest technical progress in holding down the cost of marketing has been made in recent years.

Chain stores and supermarkets have been replacing the small independent corner grocery. Chain stores now handle more than one-third of all grocery business. Not only are these stores larger than average, but also they themselves are growing in size as chain store companies close many of their smaller stores and replace them with fewer larger ones.

A large number of small independent food stores have closed. This reduction far exceeds the number of new independent supermarkets and superettes. Thus, in spite of the increase in total volume of business in the last four years, the number of retail food stores declined about 6 per cent.

Because of the tremendous volume of business done by the large stores, they can operate with smaller costs per dollar of sales. In many instances, economies of scale in the use of labor and equipment probably were among the principal reasons for the shift by many chain store companies from small to large stores.

The proportion of grocery stores with self-service has continued to increase. In 1952 more than two-fifths of the independent grocery stores and three-fourths of the chain stores had self-service facilities. Clerk service, a very expensive form of retail service, is gradually declining, even for such items as fresh meat.

This revolution in retailing illustrates how technical progress can offset, to some extent at least, increases in wage rates and other marketing costs. The success of self-service also indicates that consumers have shown some willingness to accept lesser amounts of certain types of marketing services if the savings are passed on to them.

The current margin situation

The farmer's share of the consumer's food dollar averaged 45 cents in the first eight months of this year. This is 2 cents less than in 1952 and the lowest share since 1941. However, it is substantially higher than in most pre-World War II years. Retail prices of food products during the January-August period averaged 2 per cent below the same period a year earlier, but the marketing margin averaged slightly higher.

Thus, as the middleman's share of the consumer's dollar increases, the race between consumer preferences for more marketing services and the development of lower-cost techniques of providing such services takes on a new urgency. If consumer incomes decline, it is quite possible that economy-conscious housewives will give relatively more attention to savings associated with lower-cost marketing methods.

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Population boom calls for rising productivity

Growth in population will add children and oldsters faster than workers at least until the 1960's, but this "burden" can be more than offset by rising productivity.

Preoccupation with tomorrow's business prospects all too often crowds into the background any consideration of longer-term economic growth potentials. Whether the economy will continue to operate under full steam in coming months is always a pressing question. In evaluating prospects, businessmen focus attention on such matters as the outlook for investment in new plant and equipment, consumer demand for durables, taxes and government spending, and inventory fluctuations.

In sizing up short-run prospects, changes in population and productivity—output per man-hour—usually are ignored since perceptible change in neither is likely to occur. But these are the very forces that directly underlie economic growth in the longer run. Although even a rapidly growing population changes little in a few months, the increase over the years in the supply of workers and the number of mouths to be fed adds up. Similarly, rising output per man-hour, stemming from technological progress and a growing stock of capital, works steadily to increase our standard of living.

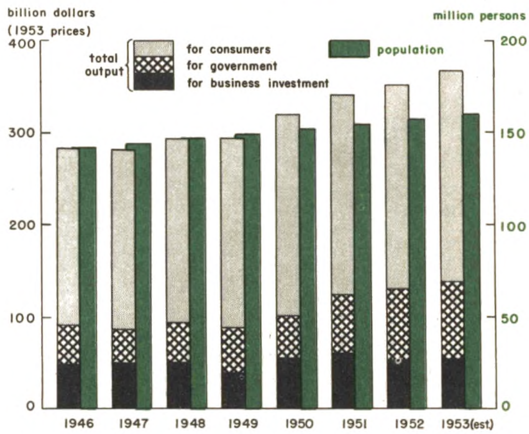
Annual output of goods and services has increased since 1946 by almost a third. This is the increase even after account has been taken of price changes—in short it is a real boost in the flow of products.

The three major purchasers of the nation's production—consumers, business, and government—have not all shared equally in this larger output. Government purchases doubled, and consumer expenditures went up by a fifth. Each of these sources absorbed almost half of the total increase. The remainder was taken up by a 13 per cent expansion in outlays for business investment and housing.

These gains have accompanied an increase in both the number of workers and output per man-hour. The nation's total labor force, armed forces included, now stands at 68 million, 9 per cent above 1946. But much more important than the larger number of workers has been the step-up in output per man-hour. With no rise in productivity, the larger labor force alone would have produced only a 9 per cent increase in total output, compared with an actual rise of more than 30 per cent.

In the last seven years, six million have joined the ranks of the labor force, while 12 million more, most of them children born in the postwar period, have been added outside

Output of goods and services going up faster than population



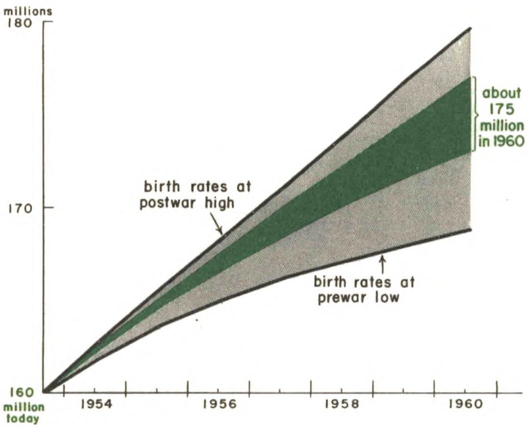
the labor force. With total population rising faster than the work force, goods and services available per capita would have declined by 1 per cent if other forces had not been at work. Instead, a 16 per cent increase took place, major credit going to greater production per man-hour.

15 million more by 1960

Total population of the U. S. has just passed the 160 million mark. It has grown by 10 million since the 1950 census. During the remaining two-thirds of the decade it probably will gain at a somewhat reduced pace, bringing the total to around 175 million by 1960. Reason for this slow-up is the prospective drop in number of new families formed, a delayed result of low birth rates in the depression.

If population grew evenly—an equal percentage increase in every age and sex group—the ratio of those of working age to children and oldsters would remain unchanged. Thus, barring pressure on natural resources and assuming no technological advance, population and potential output would increase hand in hand, and potential output per capita would remain constant.

Population growth largely dependent on birth rates — 13 to 17 million increase by 1960 most likely



But the three factors which determine population growth—birth rates, death rates, and net immigration—have differing impacts on various age groups. Immigration is now relatively small, and the influence of declining death rates has been a rather steady one, so that neither of these factors is important in population projection. The really dynamic force in molding population changes is the birth rate. Subject to wide variation and especially responsive to economic fluctuations, the number of births per thousand population ranged from 24 in 1921 down to 17 in 1933 and up again to 25 in 1951. Moreover, sharp movements in the birth rate have lasting effects as they produce bulges or dips which travel along the age distribution for many years.

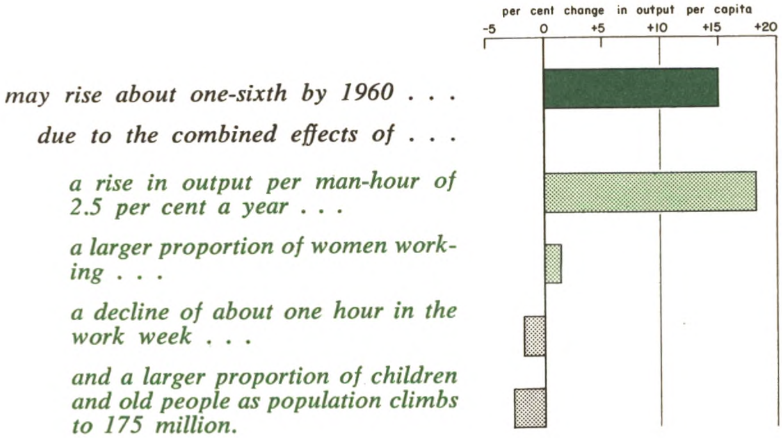
Productivity the key factor

If the nation's economy is to continue to provide rising real income per person in the future, it must rely largely on further advances in output per man-hour. The projected increase of over 9 per cent in the total population by 1960 will probably be accompanied by a somewhat smaller rise in the size of the working age group. Thus, with no expansion in output per man-hour, the supply of goods and services per capita could actually drop.

Output per man-hour in the United States has risen at an average rate of about 2 per cent a year during the past half century. The rate of increase in recent years, however, has been appreciably higher, averaging almost 2.5 per cent a year since 1946. If this pace continues for the rest of the decade, its impact on the expansion of potential output would dwarf the effect of all other factors combined (see chart on next page). Even at the historical average of only 2 per cent a year, productivity would still stand out as the dominant factor.

An annual increase in man-hour output of a small fraction of 1 per cent a year will be

Potential output of goods and services per capita . . .



needed to offset the "cost" of supporting the rising numbers of children and old people. Any increase in excess of this amount, however, will afford a basis for higher per capita real income. In fact, if productivity continues to rise at recent rates, gross output per person in real terms is likely to increase 15 per cent by 1960. Illustrative of the importance of rising productivity is the fact that if the current rate of increase continues, the average work week by the end of the decade could be cut seven hours with no decline in per capita ouput. Part of the benefits of rising productivity might in fact be taken in the form of increased leisure. Historically, this has been the case.

Rising productivity, however, is by no means spontaneous. It depends upon continued improvement in the basic skills of the work force, an increase in both amount and quality of production facilities supplied by business, and the contribution made by government.

Utilization of new methods and an increasing supply of business plant and equipment go a long way toward boosting productivity. In recent years, investment in new facilities has been at very high levels. By the end of 1952 about 40 per cent of the existing stock of business plant and equipment represented additions made in the postwar period.

Although the effect on output per man-hour of better processes, tools, and plant facilities is clear enough, the contribution made by government is often overlooked. Outlays for education and health enhance the basic skills of the work force. Provision and support of transportation and communication facilities help both workers and businesses to function efficiently. Finally, many other government programs, ranging from municipal waterworks to river basin developments, add directly to the nation's productive capacity.

Capital investment—private and public alike—thus has a double-barreled effect on the economy. On the one hand, such expenditure is basic to the increasing productivity which is a vital ingredient in the recipe for an expanding economic potential. On the other hand, by putting savings to work, it helps stimulate the high level of employment necessary for the economy to realize its full capacity.

Labor force changing

Another force affecting the nation's production potential is the shifting composition of the labor force stemming from changes in labor force participation rates—the proportion of each age and sex group holding or seeking jobs.

In recent years, there has been a decline in labor force participation on the part of men of college and post-retirement age. At the same time, a bigger proportion of men in the 25 to 65 age group has entered the work force, so that total male participation has held steady at about 83 per cent of those 14 years of age and older. Female participation has been creeping upward, especially for women over 35.

These changes in labor force participation stem from many sources, including longer periods of training, earlier retirement, and increased mechanization of housekeeping. No one can foretell with certainty how they will change in the future. This is especially true in the case of married women who move in and out of the labor force readily. If present trends persist, however, changes in participation rates would result in about a 1 per cent rise in the labor force by 1960, over and above the natural increase due to population growth. A factor which may retard growth is a shortening of the average work week. Up to 1960, however, any decline seems likely to be small.

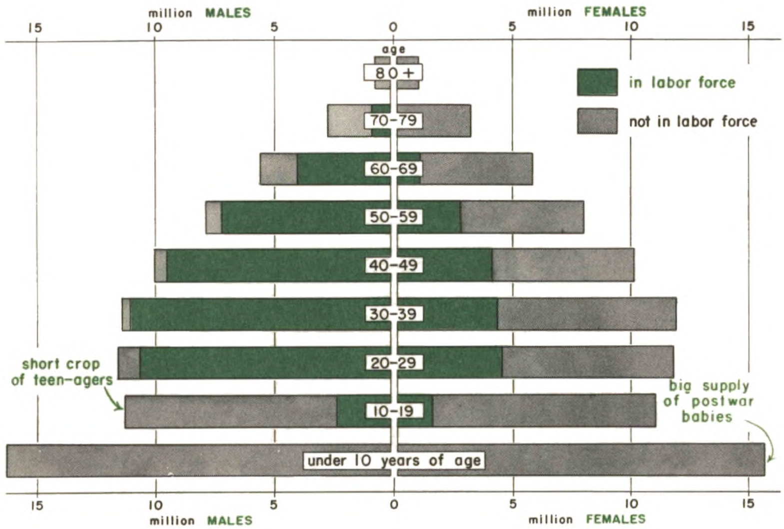
460 billion economy in 1960?

In the next seven years, increases in both the number of workers and output per man-hour can give a tremendous boost to the nation's capacity to produce goods and services. The environment in which this could occur would of necessity entail a full utilization of manpower and other resources throughout the period and a continued high rate of investment. If private investment were maintained at the present rate —using at least 60 billion dollars of potential output by 1960—and if the combined Federal, state, and local government spending for goods and services, particularly of a developmental character, remained more or less unchanged from present levels, the national product could grow to approximately 460 billion. Under these assumptions it would be necessary for consumers to buy an additional 85 billion of goods and services. This would amount to a rise of one-quarter in per capita consumption.

Should an increase of this magnitude in the demand for consumer goods fail to materialize, an intensification of private investment, a step-up in government expenditures, or some combination of the two must fill the gap if unemployment is to be avoided. Some reduction in working hours, of course, could stem from an increased demand for leisure time.

Vigorous population growth helps to keep the economy running at full steam by way of a steady addition to the number of consumers. There is nothing in this growth itself, however, which will provide for an automatic increase in living standards. The real key to a growing supply of goods and services per capita lies in the rate of growth in productivity through technological progress and investment, coupled with a demand for goods and services strong enough to absorb the fruits of a fully-employed American economy.

Population pyramid still squeezed by low depression birth rates



Sizing up rural depositors

THE BANK BALANCES that farmers, businesses, and individuals maintain reflect a great diversity of needs and available resources. Thus they come in many different sizes.

These differences in size are important to more than the depositors themselves. To bankers, they provide some hints as to the possible behavior of their institutions' deposits, and to other analysts they give indications of the broad economic structure of the community.

Clearest examples of the differences among depositors appear in those rural areas where one type of farming predominates.

For instance, within each of the five District agricultural areas illustrated in the accompanying charts, farmers' accounts were generally higher than those of other individuals. This is not surprising, since most farmers use one account for both business and personal transactions. Business deposits averaged a good deal larger than

How farmers' bank balances compare with business and personal accounts in five rural areas.

The bars compare the proportion of accounts in each group which were: below $250; $250-$1,000; $1,000-$10,000; above $10,000.

For example, in the first chart:

28%—of *farmers' accounts* had balances of less than $250

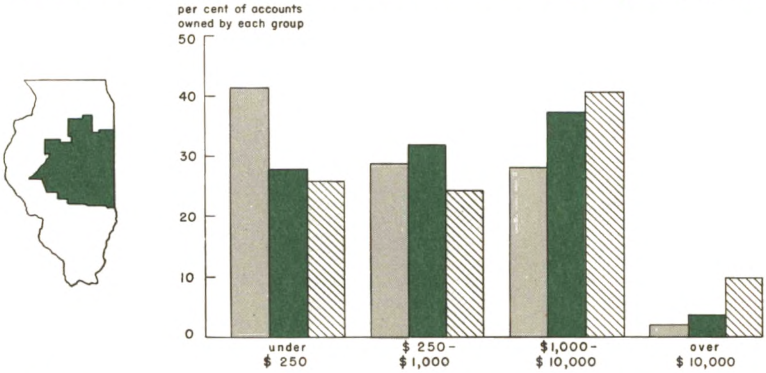
32%—had balances between $250 and $1,000

37%—had balances between $1,000 and $10,000

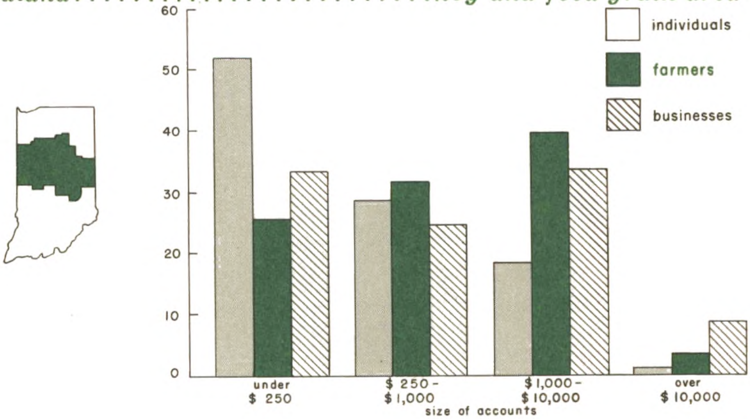
3%—had balances of $10,000 or more

100%—all accounts owned by farmers

Illinois . . . . cash grain area



Indiana . . . . hog and feed grain area

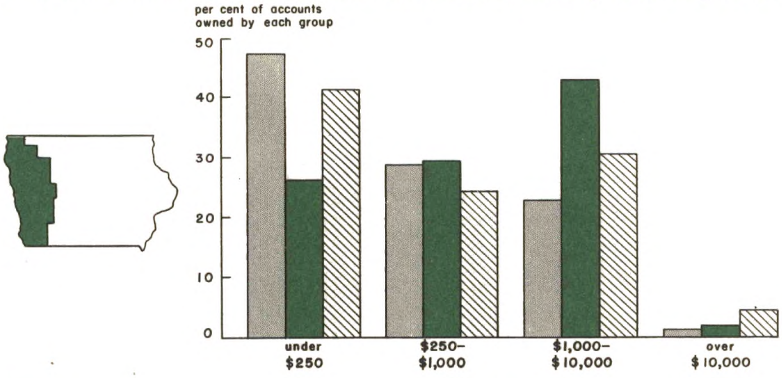


Sizing up rural depositors *(cont.)*

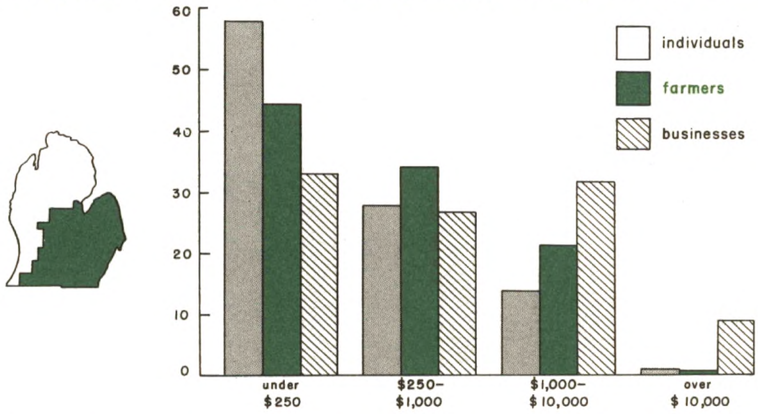
either farmer or personal accounts. Close to 10 per cent of the firms in each of the five areas maintained accounts larger than $10,000. But small business accounts were numerous, too; at least one out of four businesses had less than $250 in the bank.

By and large, patterns of account sizes among depositors in the selected livestock and feed grain areas of Illinois, Indiana, and Iowa were fairly similar. In the Michigan and Wisconsin areas, however, where dairying and general farming predominated, farmers' balances were generally lower than those in the other states. These differences may reflect partly the seasonal variations in crop, livestock, and dairy operations. They may also reflect the size of farms, the quality of the land, or the wealth of the areas in general. Actually, in the Michigan and Wisconsin areas not only farmers' balances, but those of individuals and businesses as well, were relatively smaller than in the other areas.

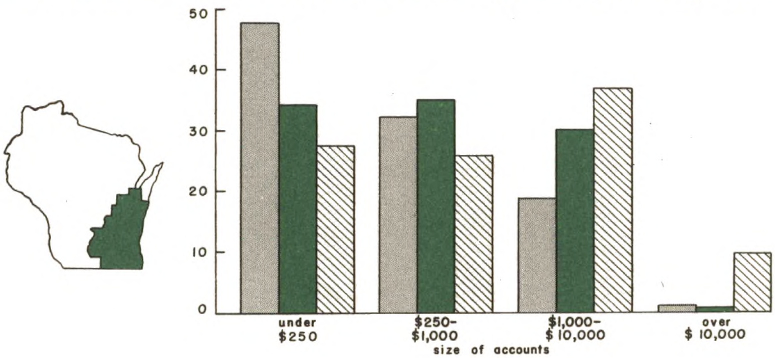
Iowa . . . . western cattle-feeding and hog area



Michigan . . . . dairy and general farming area



Wisconsin . . . . . . specialized dairy and general farming area



Business Conditions

a review by the Federal Reserve Bank of Chicago

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