

STATIONS UP THE LINE

This meeting today is held in observance of National Transportation Week. My title thus is chosen for one very obvious reason; it relates to transportation. But I chose it for another, not so obvious but more compelling, reason. I want to talk mainly about the future and its prospects and implications. This is a subject that naturally should be of interest to anyone interested in transportation.

Mr. Day, the local Chairman of National Transportation Week, has furnished me with some pertinent facts concerning transportation activity nationally and in the Twin City area. Some of these facts I already knew but had not thought about much. Others were completely new to me. Taken altogether they point up the importance of the transportation industry in both nation and metropolitan area.

Let me cite you a few figures here. Last year, interstate transportation of passengers and freight represented a total expenditure of more than \$17 billion; this, of course, does not include the intrastate or local transportation expenditures. More than 10 million people in the United States are directly employed in the transportation and transportation equipment industries. Total domestic freight carried by rail, truck, airline, inland waterway and pipeline last year was 1.3 trillion ton miles. Ten years from now this figure should be 1.8 trillion ton miles. The airlines alone flew more than 22 billion domestic passenger miles in 1956. Almost half of the 22 million motor trucks in the world are used in the United States.

These facts are most impressive, and as noted, they point up the importance of transportation in the national economy. Figures that big, however, are difficult to understand. Perhaps two local figures will bring home the importance of transportation in the Twin City area. It is estimated that transportation provides direct employment for about 36,000 families in this area

and that the annual payroll here for those families is about \$170 million.

So much for a few facts about the transportation industry. I turn now to consideration of the future - the long-run future. One of the factors that has contributed to growth of the United States economy is the transportation industry. In turn, the economic growth of the country has benefitted those engaged in transportation. Thus the industry has both a responsibility for and a stake in the future of America.

A couple of years ago Fortune magazine ran a series of articles on what it called "The American Breakthrough", a series that called attention to the growth of the American economy in the past quarter century and looked to the potential growth over the next quarter century.

Fortune began its series with the following statement:

"The supreme economic story of the past twenty-five years can be reduced to one simple, colossal fact: today the average American, though he works about 15 per cent fewer hours, has roughly 50 per cent more purchasing power than he had a quarter-century ago. This remarkable advance in material welfare is almost entirely a result of the fact that national productivity, which may be defined as average output per man-hour, has shown an average annual increase, since 1930, of more than 2 per cent a year."

In the century from 1850 to 1950, the growth in American production and wealth may be told in a few simple sentences:

1. The number of privately employed workers rose from 7 million to 56 million, an eight-fold increase.
2. The number of man-hours worked annually, however, rose only five-fold, since the average work week dropped from about 70 hours to just over 40 hours.
3. But the national product turned out by these workers increased thirty-fold, with per capita output increasing four-fold, even with the shorter work week.

4. Productivity thus grew six-fold during the period and our living standard increased about 500 per cent. This is the key fact in the whole story and I want to return to it later.

The result of this tremendous growth is that the United States, with 7 or 8 per cent of the world's people, produces about 40 per cent of the world's output. Productivity in this country is about twice that of other industrialized countries of the world and many times that of underdeveloped countries. For example, output per worker in the United States is about twice that in England and Germany, about five times that in Italy, and about ten times that in the bulk of the world.

One more significant fact should be noted here. Over the past 100 years, the American worker has taken about half of the benefits of increased productivity in the form of higher income and about half in the form of shorter hours. This is a major point to remember in thinking about the future. The movement has not been smooth over the past century; in some decades most of the increase in productivity was reflected in shorter hours; in others most was reflected in higher income. The last decade showed more taken in higher income than in shorter hours.

The really significant fact for the future, however, is expressed by a particularly insignificant figure - $1/2$ of one per cent. Productivity rose for the century from 1850 to 1950 at an average rate of about 2 per cent per year compounded. Recent experience seems to point to a higher rate for the future - about 2.5 per cent. And that $1/2$ of one per cent is a potent fraction when it is compounded year after year in an economy as big as the United States.

If this can be continued over the next 25 years, the average family income, after taxes, will be about 50 per cent larger than it now is and the work week will be about five hours shorter. This assumes that Americans will take their productivity gains, as in the past, half in income and half in leisure

time. Put into dollars, after tax income for the average family now is about \$4,500. Should the next 25 years hold up as noted above, after tax income per family would be close to \$7,000. This makes no allowance for any price change or any tax structure change.

Now the question is, of course, can this glowing potential future really be attained. The answer is that it is technologically possible, and as a matter of fact, that the picture I have painted may be only a pale copy of what actually can be attained. We seem to be advancing rapidly in technology. There are whole new industries whose business it is to raise productivity. There are many others whose whole future depends on rising productivity. With increased leisure and more income, people can be and are becoming better educated and better trained and hence more productive. We really are raising ourselves ever higher by our bootstraps.

Not only are we increasing our capacity to produce, we are increasing our capacity to consume even more rapidly. As income rises, a smaller proportion of that income has to go for the basic necessities of food, clothing and shelter. More and more of it can be used for other things and for services. New industries arise every day to cater to these new demands. Markets are becoming more fluid and consumption is becoming less stereotyped. New and improved products stand a better chance of getting a share of the consumer's dollar. This is important because it increases the rewards for successful new and improved products and hence stimulates innovation.

As more and more industries come into being we get a wider and wider diversification of industry. This also is an important point, for greater diversification tends to make the economy less susceptible to the swings of the business cycle. I do not mean to imply that we will never more have dips and rises in business activity; I merely mean that diversification should lead to more moderate swings than have taken place in the past.

Actually we have seen something of this over the past few years only we have called it the process of rolling adjustment. All that this means is that when one industry, like autos or housing, loses its upward push, other industries take up the slack and the economy keeps rolling along at a high level. As we diversify, the chances of any one industry pulling the economy into a sharp downturn lessen. It will always be possible, of course, for downturns in many important lines to coincide and thus lead to a general downturn, but I repeat, the more diversified we are, the less likely it is for this to happen.

What can hold us back from this glowing future then. Well, a major war could knock all of our prospects into a cocked hat. We have increased our potential for destruction even more than we have increased our potential for production and consumption. This very fact makes war almost unthinkable, but unfortunately even unthinkable things sometimes come about. All we can do is to continue to work hard to maintain peace.

Another development that could hinder seriously our movement toward more production and consumption, toward higher income and living standards, toward more leisure, is a steadily rising price level which would lead to erosion of the value of our currency. After being fairly stable for five years, prices showed a tendency to increase about 3 or 4 per cent in 1956. Actually, about half of the dollar increase in our production last year was in the form of higher prices.

A 3 or 4 per cent price increase each year is too much. A 3 per cent price increase each year for 25 years would double the price level. To put it in another way, a 3 per cent price increase each year for 25 years would cut the purchasing power of a dollar in half. Prices have just about doubled since 1939, mainly because of World War II. We cannot afford another doubling in the next 25 years, if we have peace.

The reason, I think, is obvious. A steadily rising price level tends to destroy the incentive to save - on the part of both individuals and of business. Unless we have saving, we cannot have adequate investment to make occur the productivity rise that is technically possible. And further, we cannot expect people to hold on to income and advance credit to others if the dollars they get in payment are depreciated dollars. With a rising price level the incentive is to spend and borrow rather than to save and invest.

There is a lot of talk nowadays about the inevitability of an annual average price rise of 3 per cent. Some people even seem to think that such an increase not only is inevitable but is desirable. I disagree with both points of view.

The point about the desirability of steadily rising prices I think can be dismissed quickly on the grounds already cited. That view can be buttressed by historical fact; it would be virtually impossible to keep price increases within a 3 per cent limit for a long period of time. People would find ever increasing tendency for prices to rise faster, they would spend faster, and thus intensify the price rise. Creeping inflation would soon become galloping inflation. I take it that no one really wants that to happen.

The point about inevitability seems to me to be a counsel of despair. Stability of the dollar can be had along with growth in the economy. The wage-cost-price spiral is not inevitable if we can have two things - a sound fiscal policy and a sound monetary policy on the one hand and public acceptance of these on the other hand. For the past several years we have had a reasonable amount of both of these; I hope we can continue to have a reasonable amount of both for the future.

One of the members of the Board of Governors, Canby Balderston, made a talk the other day and closed it with a statement I believe particularly appropriate for concluding this talk. He said:

"Our economy has a great capacity for growth. Ours is an era of technological and social progress. In this climate, our monetary objectives must be twofold: to foster continuance of economic growth and to prevent either inflation or deflation. The attainment of these goals depends on the courage with which we pursue the good of the greater number rather than that of the few, on the wisdom of governmental officials to control excesses through wise use of the weapons at their disposal, and to no less degree, on the understanding and cooperation of our private citizens."