

Kiwanis Club
1-18-66

Poem.

Lack of pretense as an economist.

"Those who know history are condemned to repeat it" (Santayana)

and those who know history are condemned to repeat it, too.

New economics is simply the old economics plus the computer.

Today, as in the past, the heart of an economist's work is determining the relationship between the sectors of the economy, which then hopefully can be used as the basis of projecting possible courses. The emphasis has changed from the defensive to the offensive -- from explaining why something unpleasant happened, to a more dynamic role of how similar crises can be avoided. This is a heady role, and one that on occasion, I suspect, economists are sorry they ever heard of. But our own Walter Heller is probably more responsible for this new role than any other economist living today. His insistence on the importance of the tax cut as a fiscal spur gave new prominence to the role of fiscal policy; the direction of the Fed has similarly shifted from a reactive role to a dynamic one, ^{monetary policy by} ~~and on~~ ^{the formulation} ~~of both~~ ^{of both} ~~of both~~ is dependent on an analysis of all the facts that can be corralled. Absent this and economics is simply an intellectual exercise akin to the arguments of theologians in the Middle Ages about how many angels can be crowded on the head of a pin.

What are the facts influencing monetary policy, for it is to this I must direct my attention.

Labor utilization.

Total unemployment at 4.1%, the lowest since May, 1957.

Unemployment of married men looking for work is at 1.8%. This is the most significant of all the statistics, because this is the group of the most skilled, most reliable, and the most eager beaver component of the labor force. As the Weekly Bond Buyer reported: it is this category that signifies labor market tightness where it pains the potential employer the most.

Other indications of the high rate of labor utilization are:

Total labor force time lost: 4.3% (matched only in March, 1957).

Factory turn-over rate at a high level, indicating employers are hiring at a faster rate, firing at a slower rate, and being deserted at a faster rate than any year since 1953.

Help wanted lineage is at an all-time high.

National figures obscure: sector problems -- Negroes -- teenagers.

It is significant that Gardiner Ackley commented . . . *that further reduction of employment may be at the expense increased pressure on the economy.*

Price:

Wholesale price index is up about 1.3%.

Processed food component, however, is up a little better than 6%, and farm products almost 10%.

Vietnam is emerging as a major commitment of material and manpower, with various price tags attached, but in the range of 6 to 7 billions as special costs.

C.P.I. up 2% from last May -
1.4 from 1951 - 62
Plant expansion

~~Spending~~ is similarly estimated at various levels, but generally at an increase of about 15%, which will result in approximately a 6% increase in gross industrial capacity.

Interest rates are still in the process of adjustment to new levels, following a period of acute imbalance, which emerged last year.

Star - Tribune

Money supply.

Annual 1.9% from 1951 - 1962
1.3% since Sept 1962
7% since July
12% Nov to Dec

Monetary policy
low made

F O M C

Board

Tools

Discount rate

reserve rate

Open market

buy - Fed reserves

sell - withdraw reserves

Imperfect

interaction with fiscal policy

expansionary in ~~the~~ 2nd half 1965

Seasonal timing

Purchase of securities

Local rate situation

" Economists simply don't know as much as we would like to know about the terms of trade between price increases and employment gains. We would all like the economy to tread the narrow path of a balanced, parallel growth of demand and capacity — at as high a level of capacity utilization as is consistent with reasonable price stability, and without creating imbalance that would make continuing advance unsustainable.

But the macroeconomics of a high employment economy is insufficiently known to allow us to map that path with a high degree of reliability.

Swan story

**Tis the season to be wary
Of predictions slow and chary,
Assaulted with Cassandra's gloom,
Confronted by Lyndon's bloom,
We pick our way slowly and gingerly,
Mindful always of Patman malingerly.**

**What will the budget be?
How high the rise in GNP?
How do we measure tone, color and feel?
How to weigh fears, imagined and real?
To the desk* we must turn with task impossible,
To make these decisions ultimately tossupable.**

(★) The Open Market desk, in case you didn't know.

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Money supply.