

E C O N O M I C   R E A L I T I E S

Remarks by

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## ECONOMIC REALITIES

Questions...nagging questions...inequities...dilemmas... problems...problems...more problems. Why don't they go away and leave me alone? I didn't create the problems, after all--I didn't create people with different color skins, or invent the assembly line, or vote to raise taxes, or anything! Yet every day somebody's trying to tell me it's my fault that I'm polluting, or using up more than my share of resources, or ignoring the plight of the poor, or...I don't know, you name it. Well, I'm damn sick of it--being made to feel guilty for things I can't do anything about! Or wasting my time worrying about problems that even the experts can't agree on.

Just look at this, will you? I come down here to Dallas to have a good time at the convention, see some old friends, maybe learn a little--and what do they do? They bust my head with more problems--in technicolor yet--as though I didn't get enough of that stuff on the tube back home. Besides, I've got my own problems. Like how I'm going to get two kids through college at the same time, or keep that old geezer's deposit with the rates I can afford to pay, or get that sour loan back on track. It may not sound like big-time stuff to those policy boys, but it sure doesn't leave me much time to worry about other peoples troubles. Besides, if everybody took care of his own back yard, we wouldn't have all these other problems to worry about in the first place. I do

what I can anyhow to help my own community, and that's all anyone can ask.

Maybe. Maybe that's right. The question, I guess, is what is "our own community?" I believe most of us are honest when we say we'd go out of our way to try to help a neighbor in trouble. In the past, our neighbors--our community, if you will--were the folks on the block, or down the street. We knew them personally and we did what we could to see that they got along all right.

Somehow, though, our community has grown. It's no longer just the folks on the block--it's the folks across the tracks, the folks in the big cities, the folks on the other side of the world. They were always there, of course, but we didn't have to confront their needs. Even now, we can't know many of them personally, and even if we could, we wouldn't personally be able to do much about their problems. But we can't ignore them either.

So we try to create organizations--some private, like foundations and charities; other public, like the various levels of government--to cope with the problems that are too big for us to deal with as individuals. But these organizations, more often than not, simply add to our sense of frustration. They gobble up our money through donations or taxes, and the problems we hoped they would solve seem bigger than ever.

Partly this frustration simply reflects the fact that "problems" seem to be infinite. It's not that we never solve any problems; it's just that there are always more once the first set is "solved." Moreover, since most of us in this room are on the

upper ridges of the economic pyramid, and the pyramid keeps rising, the gap between us and our neighbors in terms of material goods keeps increasing.

The fact is that our perception of the world around us--our expanded community and its problems--has increased more rapidly than our ability to devise institutions and organizations to deal with the problems. This intensified perception is partly the result of technological advances in transportation and particularly in communications. As has been pointed out so many times, the world is now in our living room, in living color, and it isn't all beautiful travelogs. In addition, a generation of youth--our kids--has literally been traveling to the other side of the tracks around the world, coming back, and telling it like it is. So, it's not that the problems themselves have become more numerous, or bigger, or more intractable, but rather that we now see them more often, and more clearly, and with much greater personal impact.

Now we might be able to salve our consciences and ignore our more distant "neighbors" if we had a one-way glass in the end of our tube--if we could see the problems, inequities etc., but they couldn't see us. But that--for better or worse--is not the case. The problems, so to speak, are staring back at us--and not only staring, but in some cases marching!! Very uncomfortable. The guys near the top of the economic mountain have always been more visible, but now more than ever.

If we're more uncomfortable or frustrated, it's partly because we see the problems and dilemmas more clearly, and partly

because they see us. But it's not just that society--our expanded community--expects more of us, we expect more of ourselves--in two respects: one technological, the other, for lack of a better word, spiritual. After all, we keep asking ourselves, if we can develop an organization that can put a man on the moon, why can't we devise a welfare system that will wipe out poverty, or an educational system that will guarantee equal opportunity? Nor is this simply a technological or organizational question--it's compounded by our knowledge that in the richest nation in the world, poverty is all the more an inexplicable affront.

Of course, one can explain these apparent discrepancies. After all, putting a man on the moon is a specific, identifiable task whose achievement we can measure in clearcut terms. In contrast, elimination of poverty and assuring equal opportunity are matters of degree, ever shifting targets whose attainment will always be subject to debate. Indeed, they are goals which by their nature can never be fully achieved.

Similarly, the moon landing represented primarily an achievement of technological organization, something in which we have excelled for some time. In contrast, our social goals require nothing less than a restructuring of our society and a reorientation of our outlook. At least since the splitting of the atom, and in fact long before, man has been far more clever in achieving technological advances than in creating social organizations to exploit and control them for the good of mankind. So really, we shouldn't be surprised that we can perform technical miracles yet fail to overcome social problems. But such "failure" is

nevertheless galling, since we continue, quite rightly, to expect better of ourselves.

I think this phenomenon of rising expectations has another dimension, much harder to pinpoint or even describe, but perhaps no less fundamental. The astrologers tell us that we are moving into the Age of Aquarius, away from the conflicts and dissension of the past and toward a heightened sense of the brotherhood of man. However one wants to describe this greater caring for the expanded community, I for one seem to sense that it's blowin' in the wind.

Very pretty sermon, parson, but what's all that got to do with the economic realities like they showed us at the beginning of this here show. The answer, I think, is "a whole lot."

Many of the policy dilemmas we face today grow out of our heightened awareness of the substantial disparities and inequities that exist within our own society, and between this country and the rest of the world. The fact is that these disparities in material well-being and in opportunity are not only large, but are growing, at least in terms of absolute differences. In the U.S., for example, one estimate indicates that more than ten percent of our families still have incomes below the poverty level. However much one may be suspicious of particular figures of this sort, it's hard to deny the existence of deplorable ghetto schools, malnutrition, inadequate housing, poor health care, etc. that tell us we still have a long way to go even at home.

But the contrasts between this country and the rest of the world almost defy comprehension. In this connection, I couldn't help but be impressed--and depressed--by Bob McNamara's address at the World Bank annual meeting a few weeks ago. He said that it now looked as though the industrialized countries of the world would provide only about half the amount of development assistance needed to enable the less developed countries to achieve a 6% rate of growth in GNP. As a result, the poorer countries--with 1.1 billion inhabitants and per capita GNP's of less than \$200 -- will see their per capita incomes rise by no more than \$2 per year during this decade.

"Projected to the end of the century--only a generation away--that means the people of the developed countries will be enjoying per capita incomes, in 1972 prices, of over \$8,000 a year, while these masses of the poor (who by that time will total over two and one-quarter billion) will on average receive less than \$200 per capita, and some 800 million of these will receive less than \$100."

At home, at least, in a fumbling way we have been translating our increasing personal concern for our fellow man into an expanded social concern, which in turn has meant an expanding role for people-oriented programs in the federal budget. In effect, I think the social legislation of the mid- to late- 1960's represents as much of a turning point in its own way as did its forerunner in the 1930's--a new commitment to the well-being of our fellow man, and the environment in which he lives.

The facts, I think, tend to support this view. In what

follows, I rely heavily on the impressive analytical work done by Charles Schultze and his colleagues at the Brookings Institution, published in "Setting National Priorities: the 1973 Budget." Over the past ten years, there has been a striking shift in our national priorities as reflected in the federal budget. Expenditures on defense, etc., dropped from more than half the total in 1963 (53%, \$59 billion) to only a third in the 1973 budget (34%, \$88 billion). At the same time, what might be called "Great Society" programs--programs that are mostly new or substantially restructured--rose from 2% to 14% of the total, or from less than \$2 billion to more than \$35 billion. Some \$20 billion of this figure is accounted for by programs that provide goods and services directly to people, principally the poor and the aged: housing subsidies, medicare and medicaid, food stamps, loans and scholarships for higher education, etc. The remaining \$16 billion provides grants-in-aid, mostly to state and local governments, for such things as waste treatment plants, community mental health centers, urban planning, improved medical delivery systems, manpower training programs, etc.

To label these outlays as "Great Society" programs injects a note of partisanship that I think is not warranted. The fact is that the present administration is by and large continuing these programs, and in a number of cases expanding them more rapidly than in the past. Just as much of the New Deal legislation in the social field eventually gained bipartisan support, so much of the recent social legislation--at least in the sense of accepting federal responsibility in areas hitherto considered

outside its realm--is already becoming consensus politics.

But while we have accepted greater responsibility for the well-being of our fellow citizens and for our environment we have failed to own up to--or in some cases even realize--the economic consequences of these decisions for budgetary policy, management of the economy, and our own personal tax bill. And this incongruity has left us with some of the problems and dilemmas pointed to earlier. The fact is that federal outlays on civilian-type programs (including the Great Society programs mentioned earlier) have been rising twice as fast in the last three years as they were ten years ago (9% vs 4%, on a deflated per capita basis). As a result, such expenditures will represent about 13 1/2% of the total output of our economy in 1973, compared with less than 9% in 1965. So even if no new programs are added in the future--and that's a pretty implausible assumption--the growth of existing programs will absorb a much larger share of the growth of the economy than in the past. And this is where the shoe is starting to pinch.

In effect, in the past we could have our cake and eat it too. Because we have progressive personal income tax rates in this country, growth in incomes generates a more than proportional increase in federal revenues. So without any increase in tax rates, a growing economy permitted us to finance not only the growth in existing programs, but add programs at a fairly rapid clip, since we were starting from such a small base. But now, as I've indicated, our civilian programs consume a substantially larger portion of GNP.

In addition, over the past decade we've reduced tax rates to an extent that very nearly wipes out the additional revenues we might have had out of income growth. For example, it's estimated that reductions in personal, corporate, and federal excise tax rates since 1963 have cost the government some \$45 billion, partially offset by an \$18.5 billion higher take from payroll taxes, for a net loss of \$27 billion. Now it doesn't take much imagination to see that \$27 billion would go a very long way toward closing the gap between expenditures and revenues in the coming fiscal year when a huge deficit is highly unwelcome. Nor is it difficult to understand why both the administration and its critics are concerned about the possible need for a tax increase to finance growing expenditures in the years immediately ahead.

Just as the effort to deal with increasingly widely recognized social concerns in our country has meant an expanded role for the federal government in channeling expenditure and income flows in our economy through the budget, these same concerns have had an even more remarkable impact on the character of investment flows through the credit markets. For example, it's estimated that the federal government, either through its own borrowing or through borrowing guaranteed by its agencies, will have its name on nearly half the funds raised in the credit markets during the current fiscal year. That proportion contrasts with less than a quarter of total flows a decade ago. Most of this phenomenal increase has taken place within the past five years, and apart from the enlarged deficit of the

government itself, represents primarily the government's efforts to stimulate subsidized housing.

Now whether we're talking about expanding federal expenditures or expanding federal borrowing to meet the needs of new or growing programs, we're essentially talking about pressures on available resources, and, in gut terms, who gets how much. If social concerns require that the government do more in this area than in the past, this implies that there'll be relatively less for you and me to spend ourselves. If we fail to recognize this economic reality, and simply pile new demands on top of existing ones, we should hardly be surprised if the result on balance is upward pressure on prices and interest rates.

Now I fully recognize that there are all shadings of views in this room as to the appropriate role of government in our society. Even those, such as myself, who believe that it's entirely appropriate that we devote a larger share of our resources to seeking answers in common to social problems question whether we've found effective means to achieve this goal. As Schultze and others have pointed out, the government is venturing into new areas, trying consciously to influence the shape of institutions and society itself. It has few guides, little experience, and some obvious failures. Much more thought and experimentation are needed in seeking better ways of achieving our social goals--more money alone is not enough.

But it will take more money, so it's important that we be clear on what this means. For most people, it's not a question

of redistributing existing incomes, but simply how we should apportion increments to income between private and social claims. Most of us, I think, would be reluctant to see our present standards of living reduced in the name of social equity, especially if we had no concrete proof that greater equity would in fact result. But we might be prepared to share a larger part of the increase in our living standards for social experimentation--and this is all that's required.

Likewise, it should be clear that while a strong case can be made in strictly human terms for increased efforts to cure social ills, provide equal opportunity, and preserve our environment, there's an equally strong case in terms of economic realities. Unemployed and underemployed human beings are lost output. One doesn't have to be a slave to growthmanship to feel that society as a whole loses when people are not contributing up to their potential. Yet poor health, poor education, poor environment etc. certainly all detract from that potential. It's not just a play on words to say that many so-called welfare expenditures are in fact investments in human capital, investment which if wisely made, will pay off handsomely in economic as well as human terms through increased productivity.

Lest this all sound like a rationale for more and more government in the naive hope that something good will result, let me quickly say that I believe we have bitten off about as much as we can usefully chew for the time being in the domestic area, and ought to concentrate our attention on using more effectively what we are already providing in the way of social

expenditures. I have absolutely no doubt that this is the right prescription for the current year, when the sizeable anticipated deficit cries out for a ceiling on outlays. Likewise, I question the desirability of pre-empting as large a share of savings for the public sector as now seems in prospect, particularly at a time when housing has demonstrated its ability to get financing through private channels.

On balance, though, I think we have been appropriately translating the greater perceived need for social expenditures in the U.S. into reality. But our record in terms of providing assistance to our neighbors abroad has been dismal, if not worse. At the present time, we are devoting less than one third of one percent of our output to foreign aid. By 1975, it's expected that that meagre contribution will fall further to less than a quarter of one percent. If this estimate turns out to be correct, there will be only one developed country in the world contributing less of its resources proportionately to the less developed areas of the globe than we. I for one find this entirely out of harmony with our own traditions, and with our obligations to our fellow man. I can find no more eloquent summary of my own feelings in this respect than Bob McNamara's conclusion to his remarks cited earlier.

"The affluent nations have, of course, their own domestic priorities. But their growing incremental income is so immense, their technological capacity so powerful, and their whole range of advantages so disproportionately gigantic, that no rational argument can be made for their refusal to do more to assist the

disadvantaged nations...

"If the rich nations do not act--through both aid and trade--to diminish the widening imbalance between their own collective wealth and the aggregate poverty of the poor nations, development simply cannot succeed within any acceptable time frame. The community of nations will only become more dangerously fragmented into the privileged and the deprived, the self-satisfied and the frustrated, the complacent and the bitter. It will not be an international atmosphere conducive to tranquility...

"I believe that no one within this forum would deny that the time for significantly greater social and economic equity both among nations and within nations has indeed come.

"Given more than a million years of man's life on earth; it has been long in arriving.

"Now that it is here we cannot escape asking ourselves where our responsibilities lie.

"It seems to me that the character of our entire era will be defined by the shape of our response."\*

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\* Quoted from "Address to the Board of Governors" by Robert S. McNamara, President, World Bank Group  
September 25, 1972