BUSINESS REVIEW

FEDERAL RESERVE BANK OF PHILADELPHIA

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JUNE 1963

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BUSINESS REVIEW is produced in the Department of Research.
Requests for additional copies should be addressed to Bank and Public Relations, Federal Reserve Bank of Philadelphia, Philadelphia 1, Pennsylvania.

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LEANING AGAINST THE WINDS OF CHANGE*

by Karl R. Bopp

Since we last met at this annual meeting the economy and the nation have endured strains ranging all the way from a major stock market break to a tension-filled international crisis over the presence of Soviet offensive capability in Cuba. In past decades, either one of these developments might have had the most severe repercussions on our economy. Yet the effects proved to be quite limited.

At the height of the Cuban crisis, for example, retailers noted little more than an increase in sales of transistor radios. Mass, panic buying, so typical of periods of international tension, was simply not in evidence. And though the stock market break was enough to make businessmen take a second look at our economic underpinnings, it did not precipitate any major decline in business activity.

Perhaps the limited economic effects of the stock market break partially may be explained by public confidence in the safeguards designed to cushion the economy from such shocks. Perhaps the limited impact of the Cuban crisis resulted in part from a general feeling that the course of events in the thermonuclear age is beyond the direct reach of the individual.

But whatever the reasons, the major crises of 1962 had a limited economic impact. Perhaps the most favorable development was the continuation for another year of relative stability in the price level. Yet we still had economic problems. Most important, the economy continued to grow at a rate which was inadequate to absorb an expanding work force; and our balance of payments registered a sizeable deficit.

These continuing problems presented the Federal Reserve System with difficult decisions because action designed to spur domestic economic growth may tend in some instances to aggravate our balance-of-payments problem. Stimulation of the domestic economy, on the one hand, calls for greater credit availability and lower interest rates. But easy money and low interest rates promote outflows of capital to foreign nations and can thus adversely affect our balance of payments.

You bankers, of course, are thoroughly familiar with this type of situation. You have the continuing problem of combining your desire for profit with your need for liquidity and your desire to serve your communities. In general, the quest for profit and community service tend to pull in the direction of extending credit that is longer term, riskier, and local. The need for

* A talk given at the 60th Annual Convention, New Jersey Bankers Association, Atlantic City, May 16, 1963.

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liquidity pulls in the direction of shorter term, safer, and marketable securities. This inherent conflict does not frustrate you. On the contrary, it gives real meaning to the profession. The great challenge is to produce the optimum over-all result.

So it is with the Federal Reserve System. Our problem is to produce the best over-all results, within the limits of our powers, with respect to both our balance of payments and our rate of economic growth. Today I should like to discuss with you the developments that have produced our current problems, what the System has done to resolve the issues, and finally how the System reaches decisions as to appropriate policy.

In the years when I received my economic training, prevailing thought indicated that full employment and balance-of-payments equilibrium could be achieved simultaneously. The medicine to provide one was thought to promote the other.

Unemployment, the reasoning went, stemmed from inadequate domestic demand. Inadequate demand in turn, was associated with balance-of-payments *surplus,* because inadequate demand tended to put downward pressure on wages and prices and thus made the home market a good place to buy for both foreigners and domestic consumers.

Since unemployment and payments surplus occurred simultaneously, there was no conflict in objectives. Monetary ease was the medicine for both maladies. The central bank was supposed to make money and credit more readily available. More money and credit stimulated output, employment, and sales. And it also tended eventually to put upward pressure on wages and prices and thus make domestic goods less attractive so that balance-of-payments equilibrium would be restored.

Our present situation, of course, is a long way from this theoretical framework. Why is this so?

The answer is involved and concerns political as well as economic developments. We must go back a few years—to the end of World War II in fact—to see how the present conflict between international payments and domestic growth developed.

At the end of the Second World War the United States faced two political problems of overriding importance. Much of the world lay in ruins and the Soviet Union was taking advantage of the situation to expand its territorial and ideological sphere of influence. By external power and internal subversion, the Soviets swallowed up Poland, Hungary, Rumania, Bulgaria, East Germany, and many of the other satellite nations. Within five years after war's end, the Communist bloc had expanded to include more than half the population and land area of Europe.

Surveying the world scene, the United States realized that something had to be done if liberty and peace were to be preserved. Left to their own misery, the war-ravaged and poverty-stricken nations of Western Europe were almost certain to share the fate of the Eastern European satellites. France, Italy, Greece, Turkey—all were vulnerable. Thus acting under the dual motive of humanitarianism and a desire to check Soviet imperialism and preserve world peace, the United States began a massive program to aid in reconstruction and to build a network of military bases to deter overt Soviet aggression. And this was not all. In later years, as the underdeveloped nations of Europe, Africa, Latin America, and the East began to emerge into the industrial age, the United States came with aid—both as brother-to-brother and to prevent further Soviet penetration.

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Here, then, was the world scene: two super powers with the technical proficiency to destroy the world—between them the grey area of the reconstructing and developing nations, plus an intricate network of military installations. The cost to support this elaborate setup? In a word, the costs were enormous. It meant spending vast amounts of dollars all over the world.

Yet the dollars could be spent with little adverse impact on our balance of payments and gold stock so long as dollars were desperately needed to buy United States goods. What nation wants to waste dollars buying our gold when it desperately needs machinery, locomotives, and all the other hardware of reconstruction and development?

Let this need *subside*, though, let the war-devastated countries rebuild their productive capacity so that *they* could produce much of the needs of their citizens—let them even become *competitors* with freely convertible currencies—then watch out. Dollars may come home not to buy goods, but to purchase gold, the traditional form in which many nations keep their international reserves. Indeed, with business booming abroad Americans could add to the current difficulty by investing abroad in productive enterprises and in high-yielding securities. Now, profitable foreign investment obviously adds to the ultimate strength of the dollar, especially when the income from such investment is brought back home. But while the investment is being made it adds to the current supply of dollars demanding foreign currencies.

In fact, this is just what happened to the United States. It became apparent in 1958. For in that year, when great strides were made toward currency convertibility abroad, we found ourselves paying far more to foreigners for imports, investments, military and economic aid than we received for our exports of goods and services. The difference came to a strapping $3.8 billion. To settle accounts, foreigners took a little over $1 billion in claims and about $2.3 billion in gold. We had a serious balance-of-payments problem and a heavy gold outflow to prove it. The same basic situation has continued to the present.

While all this was happening, the groundwork was being laid for our present problem of unemployment and inadequate growth. With wartime priorities directed at producing the tanks and planes needed to bring the enemy to his knees, a large portion of the wages and salaries derived from that production went into savings accounts, war bonds and the like. At war's end the nation had accumulated an enormous volume of liquid purchasing power. Then, when we converted back to peacetime production, this huge accumulation of funds descended upon a limited supply of goods. The result: rising profits, prices, and wages, and a scramble to increase capacity to produce more of the goods long denied.

Of course the highly pitched postwar boom could not last forever. Gradually, through the years, the gaping voids created by war were filled—voids in durable consumer goods, housing, and other areas. Yet still business expanded its productive capacity. Wages, costs, and prices continued to rise. Then, in the early 1960's, we found that costs were rigid and that profits were squeezed. We found that our capacity to produce greatly exceeded the demand for goods at existing income levels. We found ourselves with a tax structure designed for war in a period of lax demand.

In short, we found that the groundwork had been laid for the present situation of unemployment and inadequate growth—and this at a time

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when we continued to spend more abroad for imports, investments, military and economic aid than we received for our exports of goods and services. This is how the problem of inadequate growth became coupled with balance-of-payments deficit. And this is why the Federal Reserve System finds itself with a situation in which monetary ease needed to stimulate domestic growth can spill over to affect adversely our balance of payments.

This is not the first time that the System has been confronted with conflicting objectives. You all remember the period of the pegs, when maintenance of stability in the prices of Government securities was not consistent with promoting stability in the general level of commodity prices. Again, during the middle 1950's we had a foretaste of current developments. Roughly from the middle of 1953 to the middle of 1954, employment declined by 1 million (and unemployment rose by nearly 2 million) our monetary gold stock fell by $600 million, and both the consumer and wholesale price levels varied by only one per cent. Thus an employment objective would have called for greater ease, protecting our gold stock would have called for greater tightness, and a stable price level would have called for no change.

We are living through a similar set of developments at the present time. And though the recent loss of gold is more serious than that in 1953–1954, the two periods nevertheless illustrate the need for judgment in arriving at an appropriate balance over time among several objectives, each of which is desirable in its own right.

Combining the objectives

The next question I want to ask is this: Just what has the System done with respect to money and credit, given the diverse developments that have occurred?

First let me say that there certainly has been no lack of suggestions from outside as to how the System should deal with the dual problem of payments deficit and inadequate growth. System actions have been studied, analyzed, and debated in the press, in the economic journals and elsewhere. Virtually no action of the System goes without comment. Indeed, one feels today much as Walter Bagehot must have felt when reviewing Gibbon's book *The History of the Decline and Fall of the Roman Empire*. Bagehot noted that "Perhaps when a Visigoth broke a head, he thought that that was all: not so,—" wrote Bagehot, "he was making history; Gibbon has written it down."

The System has been advised by some to concentrate its attention exclusively on the balance-of-payments deficit—to raise interest rates to whatever degree is necessary to eliminate the deficit promptly. Yet while flows of volatile short-term capital might indeed be influenced by such action, a significant rise in interest rates would also tend to curtail domestic investment.

The System has been advised by others to concentrate mainly on the rate of economic growth—to make credit more readily available and interest rates lower so as to stimulate investment, production, and employment. Individuals of this persuasion argue that such action would not only alleviate the domestic problem of unemployment, but also would solve our payments difficulties. Our payments problems would benefit, the reasoning goes, because a faster growth rate would make the United States more attractive to both foreign and domestic investors, hence reduce or even eliminate the large net outflow of investment funds. Unfortunately, there is no certainty that greater monetary ease would in fact have the stimulating effects envisaged

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without causing a further outflow of funds. It seems likely that the immediate impact on capital flows would be adverse and the favorable long-term effects would be modified by a likely deterioration in our trade balance.

In short, there are real questions as to whether monetary policy could have its optimum impact if directed at either end of the spectrum of possible action. As a result, the System has avoided the extremes. It has attempted instead to provide sufficient monetary ease to promote orderly economic growth while at the same time avoiding undue pressure on short-term interest rates.

Evidence of the direction of monetary policy may be found in the statistical record books for the year 1962. To stimulate domestic economic activity the System permitted an expansion in bank reserves of about $700 million after adjustment for changes in reserve requirements. As a result, the banking system increased its loans and investments by a record $19 billion, providing about 31 per cent of the total net volume of funds raised in the credit and equity markets during the year. And even more indicative of the ease provided by the System, this record increase in earning assets was accomplished with only a slight drop in holdings of Government securities. This is in sharp contrast to other postwar business upswings when banks increased loans only at the expense of liquidating large volumes of Governments.

In response to the record increase in bank credit, long-term interest rates on Government and corporate securities fell noticeably and residential mortgage rates also drifted downward. Yet most short-term rates, those to which international flows of funds are especially sensitive, actually rose on balance.

The System helped keep short-term rates up by supplying reserves in such a manner as to minimize direct pressure on the short-term securities markets. Instead of supplying all reserves by direct purchase of Government securities (which tends to push prices up and yields down) the System created about $780 million in excess reserves in 1962 by reducing reserve requirements on time deposits from 5 to 4 per cent. In addition, the Open Market Committee continued to concentrate purchases of Government securities outside the short-term Treasury bill market, and thus to avoid downward pressure on Treasury bill rates. Indeed, close to 95 per cent of the net increase in the System's portfolio of Government securities during the year 1962 was in issues maturing in over one year.

The System also took other actions broadly aimed at mitigating temporary developments which might affect adversely our balance-of-payments position. Among these, Regulation Q was modified in an attempt to discourage the outflow of short-term funds held by foreign Governments and official institutions. Effective in October of 1962 for a period of three years, deposits of "foreign Governments, monetary and financial authorities of foreign Governments when acting as such, or international financial institutions of which the United States is a member" are exempt from the provisions of the regulation specifying maximum rates of interest which may be paid on time deposits. This modification enables member banks to set rates which are competitive with those offered abroad and thus to attract foreign-owned dollars which otherwise might flow to foreign countries and thus become a claim on our gold stock.

In addition to the modification of Regulation Q, the System has developed the so-called "swaps" arrangement under which the Federal Reserve and 10 foreign central banks (plus the

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Bank for International Settlements) have set up reciprocal "lines of credit." The Bank of France, for example, will allow the System to draw up to 500 million francs and the Fed, in turn, will let the Bank of France draw 100 million dollars.

In general, these drawings are made in response to needs for foreign currencies to provide temporary relief from specific developments which might adversely affect our balance-of-payments and gold position. The foreign currencies may be used for direct operations in the exchange markets—the Federal Reserve, for example, drawing francs and offering them for sale through the exchange markets to dollar holders who desire francs and whose efforts to purchase francs might increase the price of francs in terms of the dollar.

More typically, however, the System would draw foreign currencies under the swap arrangements to buy dollars which a foreign central bank has acquired (as a result of international commercial and financial transactions) and which are in excess of those the central bank would ordinarily hold. These dollars would thus be absorbed and would not be used to purchase gold during the period the swap is in effect. In numerous instances it has worked out that by the time the swap matured natural forces had operated to absorb the dollars so that the transfer of gold was avoided entirely.

In a sense, the swap arrangements represent a first line of defense against short-term developments which could cause gold drains and speculative movements of funds abroad. Yet it should be noted that such agreements as the swaps are by no means the final solution to our balance-of-payments problem. Instead, they are tools which give us time to work out the more basic difficulties underlying our balance-of-payments deficit.

The United States also participates in informal arrangements with European countries to restrain speculative pressures in the London gold market, which pressures if allowed free sway could have unsettling effects on the exchanges.

To summarize what I have said thus far, the System has adapted its operations to meet the conflict inherent in the dual problem of balance-of-payments deficit and inadequate economic growth. It has attempted to provide the monetary ease necessary to promote orderly economic growth, yet provide this ease in such a way as to have a minimum impact on our balance of payments. In addition, it has developed several procedures designed to mitigate temporary developments which might have adverse effects on our balance of payments and on our gold stock.

How decisions on policy are made

Now I should like to move from the substance of policy to discuss with you for a moment the procedure by which Federal Reserve policy is determined. I do this because of the conflicting reports you may have read about the process. Just a year ago the System was being described as a monolithic organization whose responsible officials were required in some mysterious way to reach unanimous decisions, irrespective of their real convictions. More recently, after publication of the Annual Report of the Board of Governors, you may have read about a "deep split" in the System over policy. Obviously, these reports come from opposite ends of the analytical spectrum.

Congress created the Federal Reserve System half a century ago to reflect our heritage of checks and balances, our desire to avoid concentrations of power. It made the System responsible to the Congress rather than to the President. It created a rather complex organization.

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At the apex is the Board of Governors, consisting of seven members appointed by the President, by and with the advice and consent of the Senate. There are twelve Reserve Banks and twenty-four Branches, each with a board of directors, 260 directors in all. Each Bank has a president, elected by the local board of directors with the approval of the Board of Governors for a five-year term. The seven governors and five of the presidents comprise the Federal Open Market Committee. Finally, there is a Federal Advisory Council with one member from each Reserve District.

This complex organization was created to assure that a variety of points of view would receive expression and consideration in the determination of monetary policy. Obviously, it is not the kind of structure one would create if he were interested in unanimity of view. That could have been assured by creating a single-headed central bank. Congress did assure that in the event of differences in opinion a united Board of Governors would have final authority over all instruments of policy. Its members cast seven of twelve votes on the Open Market Committee; they review *and determine* discount rates at the Reserve Banks; they determine reserve requirements of member banks, and they establish margin requirements for purchasing or carrying listed securities.

It should not be surprising that votes on policy have been unanimous for considerable periods of time. After all, there is no basic disagreement on the goals: maximum employment and production, domestic and international stability of the currency, and growth that such conditions promote. Not infrequently all of these goals call for essentially the same policy. Furthermore, the responsible officials have access, directly or through interchange, to the same information. Under these circumstances, frequent agreement requires no defense. Differences of opinion which may exist may be too small to merit a record of dissent.

It should be equally clear why differences of opinion do arise from time to time. General agreement on goals does not include specific agreement on the best combination of objectives if all of them cannot be achieved simultaneously and continuously. Furthermore, in our current state of knowledge, central banking is more art than science. Economists have not been able to conduct the controlled experiments that would enable them to predict in all their ramifications the precise effects of a given action. Finally, every individual's judgment is influenced by his own background and experience. Officials of the Federal Reserve System are human beings, living in the real world not in a vacuum.

The Federal Open Market Committee is a deliberative group. Each member influences and is influenced by every other member. Obviously the amount of influence exerted and received is not equal but is related to the talents of the individual members. After many years of observation and participation, I can say no single member would have done exactly what the Committee did on all occasions had he been in complete authority. No member is always completely satisfied. Yet, looking back and speaking for myself, I can only *hope* that I may have made some constructive contribution to the results; I *know* that the actual policies that have been pursued have been better than they would have been had I called all the shots.

Conclusions

In conclusion let me say this. The Federal Reserve System has been faced with difficult problems during the past few years. The serious

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deficit in our balance of payments and the slowdown in our rate of economic growth have challenged the skill and resourcefulness of all officials within the System.

Differences arise from time to time with regard to the particular emphasis which should be given to each of the forces that comprise our complex economic system. Such differences could be eliminated simply by eliminating dissenting opinion. Yet one of the main sources of Federal Reserve strength is the deliberative process wherein men of good-will, of varied background and experience pool and appraise opinions and ideas and come to a judgment as to the course of action to be followed. It would be of dubious utility to sacrifice this decision-making process merely to appear more unified and monolithic in the public eye.

In my talk with you today I have discussed primarily the role of the Federal Reserve System in promoting sustained growth and balance-of-payments equilibrium. Let me close by emphasizing what must be obvious; the Federal Reserve alone cannot solve these problems. The complexities of the situation demand that we bring *all* of our tools of public policy to bear, from fiscal policy to foreign relations. Only then can we be assured that this nation has the best possible chance to move forward during the decade of the 1960's.

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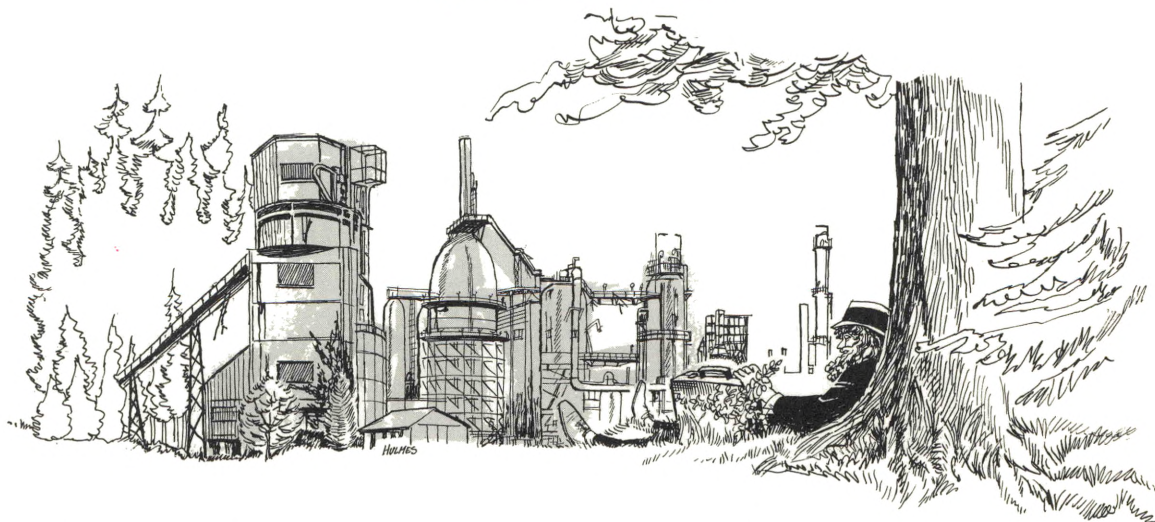
PENNSYLVANIA'S ECONOMIC GROWTH: PROBLEMS AND RECOMMENDATIONS*

by Evan B. Alderfer



A local Rip Van Winkle, awakening from a half-century snooze, would be surprised to see how Pennsylvania changed while he slept. No doubt he would be amazed by the mechanized farms, the myriads of motor vehicles, the new look of downtown Philadelphia and Pittsburgh's Golden Triangle. But he would be chagrined to see how the Commonwealth's greenery is pock-marked with gray culm banks, strip-mining scars, idle coal tipples, and run-down mill towns.

The arrested progress of the state stands revealed in the Census volumes and other official reports. Without citing the statistics from these sources, they show a marked slow-up of population growth, high levels of unemployment, heavy burdens of relief payments, able young people leaving the state, a scarcity of vigorous new industries, and an abundance of older industries with little or no growth or actual decline. In short, Pennsylvania—once a proud and prosperous Commonwealth—has fallen upon hard times.

* A talk given at the Commonwealth Conference on Pennsylvania Economic Growth, Harrisburg, May 15, 1963.

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It appears that the very things that gave rise to our past prosperity had in them the seeds of our present problems. Our Commonwealth was originally blessed with a rich endowment of forest and mineral wealth—hard woods and soft woods, hard coal and soft coal, petroleum and natural gas. Pennsylvania was a storehouse packed with power. Moreover, there were deposits of iron ore, limestone aplenty, and sandstone. The state was predestined for an iron and steel economy and all that goes with it.

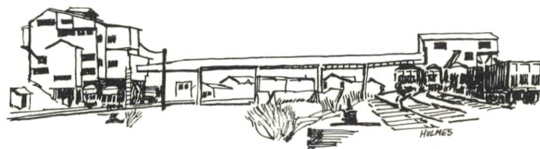
Charcoal from the forests fired the early furnaces. When charcoal became scarce, ironmasters turned to anthracite and later to coke made from bituminous coal. Refractory bricks made from local ganister lined the furnaces, and limestone fluxed the charge of iron ore. The greatest of these assets was coal, and to date over 13 billion tons of hard and soft coal have been mined out of Pennsylvania.

Coal is basic to steel, and steel is basic to all industries including steel. Pennsylvania's coal and steel made Pittsburgh, the railroads, and the Altoona car shops. Our iron and steel mills made skyscrapers, armor plate, locomotives, ships, and the endless variety of industrial equipment indispensable to a machine civilization. As long as the coal industry prospered, Pennsylvania prospered.

Pennsylvania coal production peaked out during World War I and has been going irregularly downhill ever since. Oil and gas displaced anthracite in the space-heating market. The decline of Pennsylvania bituminous was more complex. There was not only increasing competition from West Virginia and elsewhere, but also loss of markets for bituminous generally. Railroads, with troubles of their own, shifted from coal-burning steam locomotives to oil-burning Diesels. Oil also made serious inroads in the market for bunker coal. Many industries, including some electric utilities, shifted from coal to oil or gas. The steel industry learned how to produce more and more steel out of a ton of coal. And so, Pennsylvania bituminous coal production is now scarcely a third of its 1918 peak output.

Steel production in Pennsylvania is also on the decline, both in percentage of the country's output and in actual tonnage. New steel mills were built and are presently being built or enlarged in the Midwest and Far West to supply local markets. This is a development in response to the growing practice of hand-to-mouth buying which puts a premium on proximity to the market. For similar reasons, the cement industry of Pennsylvania has shrunk to a fraction of its former importance.

Pennsylvania, as you know, also lost some industries that went South in search of lower



labor costs. Textiles and hosiery are prime examples. Furthermore, during World War II the Federal Government policy of fostering the building of new plants in remote regions for reasons of national defense likewise did no good for Pennsylvania.

Pennsylvania's inability to hold its former prominence in basic industries like coal, iron and steel, cement, and others was perhaps inevitable; but that misfortune was accompanied by still another unfortunate deal of the cards, namely, her inability to attract enough of the new, vigorous, rapidly growing industries, such as motor vehicles, man-made fibers, aircraft, spacecraft, missiles, and electronics.

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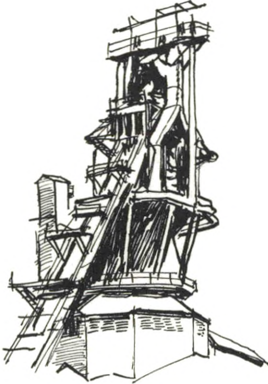
As a result of all these changes, 20th century Pennsylvania is left with too much of a 19th century industrial structure. Parenthetically, our state constitution is also of 19th century vintage.



For one reason or another, we haven't kept up with the changing times.

The hardships of Pennsylvania's retarded growth are greatest in the coal regions, in some of which unemployment runs as high as 13 per cent of the labor force. Many of these communities have made heroic efforts of the bootstrap type to bring in new enterprises, and with noteworthy success. The P.I.D.C. in its almost seven years of operation has created over 40,000 new jobs. Other agencies of the state in Harrisburg and in the counties and municipalities have wrought mightily to attract new industries. With due credit to the progress achieved by all these endeavors, Pennsylvania, unfortunately, still has close to 400,000 people or more than 8 per cent of the labor force looking for gainful employment.

RECOMMENDATIONS

Actually, Pennsylvania is not as badly off as it is frequently painted; its image is worse than its photograph, although the latter, too, can stand some touching up. The most frequently heard misconceptions about Pennsylvania are: that its administration is anti-business, that it is a state with high corporate taxes, that relief payments are loosely administered, that its work force is uncooperative, that some resident companies resent newcomers, that the state has serious deficiencies in its education and transportation facilities. In short, that the business climate is bad.

Some of these allegations are vagrant opinions without visible means of support; others are careless generalizations based on a few isolated instances; and still others, while originally containing elements of truth, are now out of date. Moreover, a concern seeking a site for a new plant does not decide on the basis of rumor and hearsay. Decisions are made on the basis of such things as cost of the land, availability of water, access to transportation facilities, labor supply, police and fire protection, and proximity to markets.

Even though the mythical center of the country's population is slowly creeping westward, Pennsylvania still holds an ace card in its strategic Middle Atlantic location—right in the middle of the country's biggest and densest mass market for products and services of all kinds. This is an advantage which cannot be stressed too highly, and it is a factor on which we might well capitalize.

A program for strengthening our economy and accelerating its growth should begin first by making every effort to keep what we already have. That calls for improved housekeeping and modernization in both the public and the private domain. Much more can be accomplished by our governmental agencies at all levels—state, county, and municipal—to still further improve the services and facilities that make for safe and healthful living conditions. Our industrial leaders in finance, commerce, trade and industry can likewise do a great deal more by way of improving and modernizing their services, facilities, and working environment.

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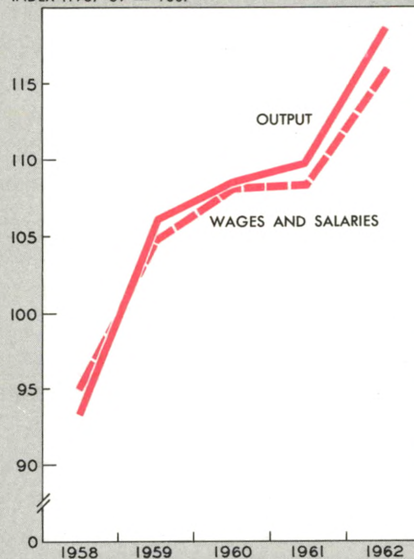
WHAT'S

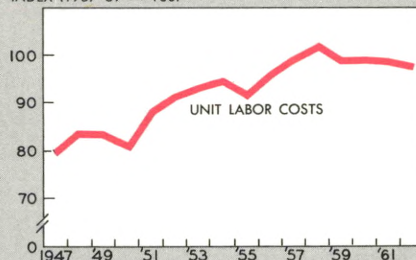
In all the gloom cast by our problems of sluggish economic growth and our balance-of-payments difficulties, it is sometimes hard to see a ray of sunshine.

The facts presented in these charts offer a welcome hope. The relative stability of labor costs in manufacturing in recent years has helped contribute to stable prices. This stability is favorable for expansion of business at home and puts us in better shape to meet the increasingly severe competition from abroad.

For roughly a decade after World War II, wages and salaries in manufacturing rose faster than output.



Since 1958, output has risen faster than wages and salaries.



As a result, labor costs per unit of output, which rose for about a decade, have been declining.

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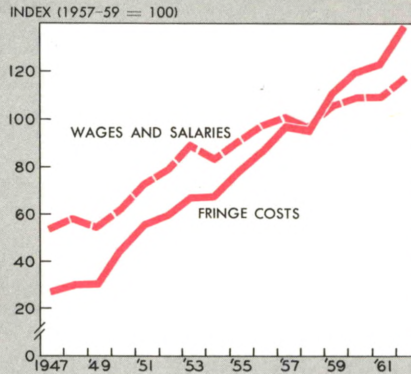
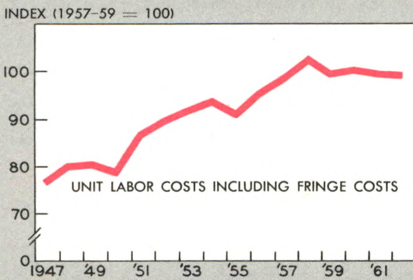
HAPPENING TO LABOR COSTS?

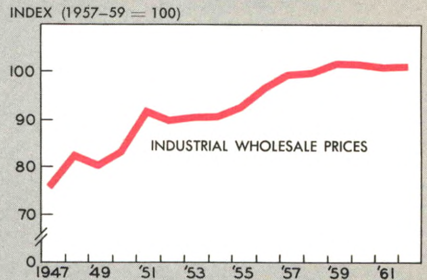
This picture is not quite so good as might appear, however, because it does not take account of fringe benefits, which have been increasing faster than wages and salaries.





But even after allowing for fringe payments, unit labor costs have been declining.

And partly as a result, wholesale prices of industrial commodities are now slightly lower than a few years ago.



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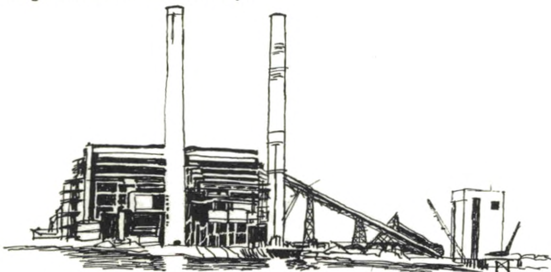
PENNSYLVANIA'S GROWTH

(*Continued from Page 13*)

Internal improvements designed to keep the productive enterprises we already have will also serve to attract new enterprises, and will be a more effective way than mere advertising which all states are now doing. The fact that Pennsylvania was once the undisputed leader in a number of industries may have generated a feeling of permanent security. If so, it is all the more important for us to realize that the competitive race is more rigorous, that the rules and tools and environment have changed also. Modern competition turns more on pioneering in research, technology, and engineering services than in exploitation of natural resources.

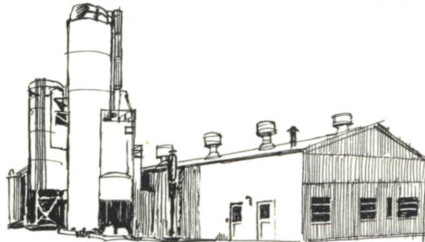
Efforts to bring new enterprises into Pennsylvania should not be directed exclusively to manufacturing concerns because manufacturing is no longer the leading source of employment that it once was. To be sure, new manufacturing concerns are welcome even though highly mechanized or automated, but we also want enterprises in the growing service industries.

What Pennsylvania needs even more than factories of brick and mortar is "idea" factories, and they can be established without a huge expenditure of money.



Philadelphia has what has come to be called Community Leadership seminars. The first of these seminars was organized some years ago, aided by a grant of $25,000 from the Fels Foundation. A seminar consists of business and professional people nominated from among the young and up-coming leaders of the community. The seminar includes an architect, an attorney, a merchant, a manufacturer, an engineer, an accountant, a banker, a doctor—a cross section of thoughtful people from all walks of life.

About eight or ten times a year, the group meets in the late afternoon from 4 to 9 p.m., with



an interlude for dinner. Usually, a speaker is invited from nearby or from a distance, who has a story to tell about a particular community achievement. Then follows a free-for-all discussion in which the potential leaders energize each other.

It is not a glorified "bull session" around an ale board. Careful advance planning is done for each meeting. The group usually wrestles with a specific community problem. Staff papers are prepared and distributed in advance of the meeting for the members to read, so that they come prepared with ideas of their own or ideas that have been stimulated by the reading of the staff papers.

Next year there will be another group. In other words, the men run their own graduate seminar. Moreover, they shoot with a rifle at some specific community problem. It is not a gabfest dealing in generalities, but a study and discussion group devoted to specifics—one at a time.

Local issues, such as an expressway, a charter, a new school building, or the removal of a

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slum to make way for a housing project, are never simple issues on which all people agree. Inevitably such proposals arouse controversy and are likely to be kicked around endlessly without any progress toward solution.

Problems of this kind call for careful scrutiny, a study in depth, in which all points of view are brought into focus, the facts laid bare, and the basic issues sharpened up. A community seminar with its diversity of training, experience, and background is ideally fitted to wrestle with these complicated issues.

Once such a group has thought and wrought over a local issue, a course of action can be recommended to the city fathers, the school board, or whatever organization is invested with the responsibility and power to act.

Reform movements in Philadelphia and other large cities have had their origin in precisely this manner—young people on the move in their respective callings, taking time out for skull ses-

sions on civic issues of joint interest for the community welfare.

Pennsylvania with its abundance of municipalities affords excellent opportunities for intellectual cross-fertilization of the graduate seminar type pioneered in Philadelphia.

Pennsylvania has 39 municipalities ranging in population from 25,000 to slightly over 125,000. Some of the largest of these, like Erie, might wish to go it alone. Others, of smaller size and not too far removed from each other, might choose to pair up for the conduct of such seminars. For example, Allentown and Bethlehem; Altoona and Johnstown; Hazleton and Lebanon; New Castle and Sharon; West Mifflin and Wilkensburg; Harrisburg and Reading; Lancaster and York. Such pairing could be mutually beneficial, especially where the two are confronted with identical or substantially similar problems.

It would be to the advantage of such a local seminar when planning a forum on a particular topic such as zoning, or water supply, or sewage disposal, to invite as a speaker a representative from Nashua, New Hampshire, or Greensboro, North Carolina, or Aspen, Colorado, or whatever city had already done an outstanding job of solving a problem similar to that with which the local group is concerned.

Furthermore, it might be well to have, for example, quarterly or semi-annual meetings of this type on a statewide basis in Harrisburg.

In this proposal there are no white rabbits, no miracles, but a constellation of such regional seminars of the best brains in each community fertilizing and stimulating each other is sure to be profitable and infinitely better than sulking and sinking.

Let it not be thought that the big cities have a monopoly on big ideas, that the best brains and the most fertile imagination and originality are confined to the leading population centers.

The future of American civilization rests on the quality of life at the local level. In the words of Dahl and Lindblom, two Yale professors:

> A group is neither good nor intrinsically cooperative simply because there are a few people in it. Nevertheless, under the most favorable conditions small groups can do some things better than any large group can do

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> under the most favorable conditions. Insofar as it is obtainable at all for most people, most of the good life is to be found in small groups—family life, the rearing of children, love, friendship, respect, kindness, pity, neighborliness. These are hardly possible except in small groups. If one could somehow destroy the large groups and leave these things standing, the loss of the large would be quite bearable. But if one maintained the large groups and destroyed these values, the impoverishment and barrenness of living would be incalculable. For to most people the meaningful center of life is made up of small groups of which they are a part, into which they are born or accepted, among which they live and grow, marry, beget children, who beget grandchildren, acquire friends, eat, talk, share in ceremonials, celebrate the new born, mourn the dead.

When one looks at Pennsylvania—its diversity, its history, its wealth of natural endowment, its beauty—there is great opportunity, as science and technology develop, for the small production unit where the members get to know each other and to understand each other. For that, Pennsylvania—with so many small and medium-size cities—is an ideal place.

This is unlike the big corporate enterprise with the big union, where every big subdivision must conform to the national pattern laid in a Procrustean bed, with the result that one small group may have its feet chopped off.

Let us assume, for the sake of argument, that the Pennsylvania-New York Central merger goes through and that subsequently a large part of the railway traffic follows the water level route through the Mohawk Valley. Pennsylvania's rail system may yet be made good use of, perhaps through a system of one or two automated cars to give quick and flexible transportation service.

Economic growth is a compound of numerous interacting forces, and anyone seeking a simple remedy to accelerate Pennsylvania's retarded rate of growth will look in vain. The problem has many facets and calls for a many-sided attack. We go along with those who call attention to the need for improved statewide transportation facilities, better utilization of our natural resources and fuller development of our human resources by expanding and improving our educational opportunities at all levels. But in addition to these approaches, calling so heavily upon leadership at the top, let us not overlook the advantages of the grass-roots approach.

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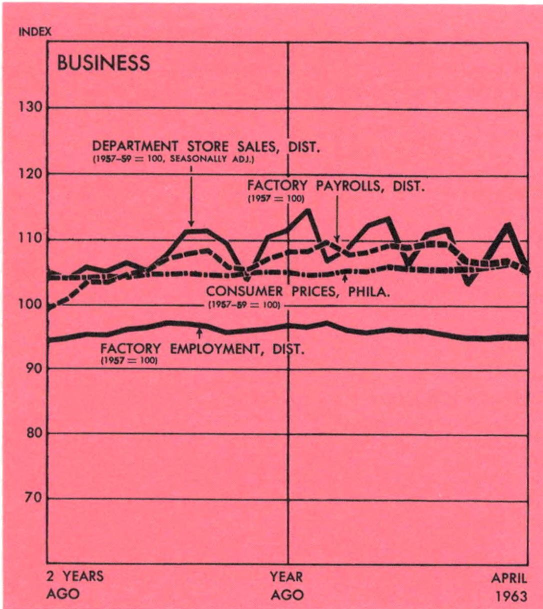
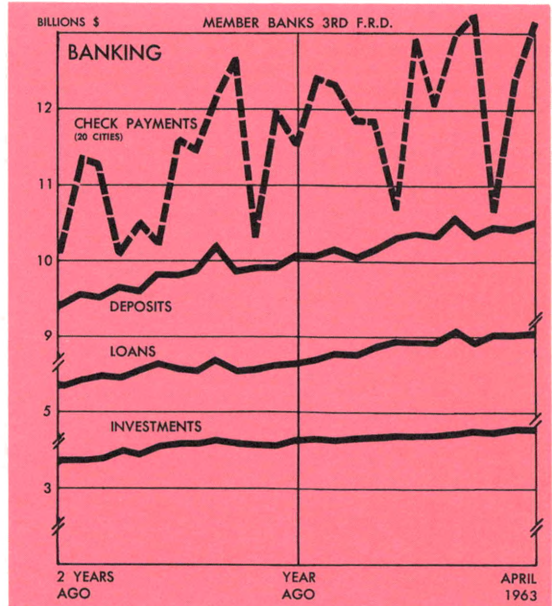
FOR THE RECORD...





SUMMARY

	Third Federal Reserve District: Per cent change, April 1963 from mo. ago	Third Federal Reserve District: April 1963 from year ago	Third Federal Reserve District: 4 mos. 1963 from year ago	United States: Per cent change, April 1963 from mo. ago	United States: April 1963 from year ago	United States: 4 mos. 1963 from year ago
MANUFACTURING						
Production	....	....	....	+ 1	+ 4	+ 4
Electric power consumed	+ 2	+ 5	+ 2	....	....	....
Man-hours, total*	− 2	− 5	− 2	....	....	....
Employment, total	0	− 2	− 1	+ 1	0	+ 1
Wage income*	− 1	− 2	0	....	....	....
CONSTRUCTION**	−23	−10	− 3	+11	+ 3	0
COAL PRODUCTION	+ 9	+13	− 2	+ 6	+ 6	+ 1
TRADE***						
Department store sales	− 6	− 7	− 2	− 3	+ 3	....
Department store stocks	+ 2	− 1	....	....	....	....
BANKING (All member banks)						
Deposits	+ 1	+ 4	+ 5	0	+ 6	+ 7
Loans	+ 1	+ 8	+ 8	0	+10	+11
Investments	0	+ 4	+ 5	0	+ 5	+ 5
U.S. Govt. securities	− 1	− 2	0	− 1	− 2	− 2
Other	+ 2	+21	+19	+ 3	+22	+23
Check payments	+ 6†	+13†	+ 6†	0	+ 9	+10
PRICES						
Wholesale	....	....	....	0	− 1	− 1
Consumer	0‡	+ 1‡	+ 1‡	0	+ 1	+ 1

*Production workers only.
**Value of contracts.
***Adjusted for seasonal variation.

†20 Cities
‡Philadelphia

LOCAL CHANGES

	Factory* Employment: Per cent change April 1963 from mo. ago	Factory* Employment: year ago	Factory* Payrolls: Per cent change April 1963 from mo. ago	Factory* Payrolls: year ago	Department Store† Sales: Per cent change April 1963 from mo. ago	Department Store† Sales: year ago	Department Store† Stocks: Per cent change April 1963 from mo. ago	Department Store† Stocks: year ago	Check Payments: Per cent change April 1963 from mo. ago	Check Payments: year ago
Lehigh Valley	+ 1	− 3	+ 4	− 1	....	....	....	....	+10	+ 7
Harrisburg	+ 1	+ 1	+ 1	+ 2	....	....	....	....	+ 3	+12
Lancaster	+ 1	+ 2	− 2	− 2	−25	− 1	+ 3	+ 1	+ 8	+17
Philadelphia	0	− 2	− 2	− 2	−12	− 8	+ 2	− 3	+ 3	+11
Reading	− 2	− 4	− 4	− 6	−13	− 3	+ 2	+ 2	− 1	+10
Scranton	− 2	− 5	− 4	− 9	−11	− 5	0	+ 4	+ 7	+10
Trenton	+ 2	+ 3	− 3	+ 2	−18	− 5	+ 1	+ 4	+25	+29
Wilkes-Barre	0	− 1	− 2	− 4	+ 3	+ 4	+ 2	+ 8	+12	+24
Wilmington	+ 1	+ 3	+ 1	+ 5	−22	− 8	+ 2	0	+ 7	+23
York	− 1	− 3	− 2	− 2	−24	− 3	− 3	0	+ 5	+ 8

*Not restricted to corporate limits of cities but covers areas of one or more counties.
†Adjusted for seasonal variation.

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