Consumer Credit in the American Economy—
Vigor of Youth or Middle Age Spread?

A Foundation of Sand

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So far as my coin would stretch; and where it would not, I have used my credit.
—William Shakespeare

Ah, take the cash and let the credit go.
—Omar Khayyam

CONSUMER CREDIT IN THE AMERICAN ECONOMY— VIGOR OF YOUTH OR MIDDLE AGE SPREAD?

History reveals that our thrifty ancestors, the Pilgrims, voyaged to the New World on one of the first "Go Now—Pay Later" plans; they financed their journey with a seven-year personal loan from some English merchants.

Since that time consumer debt in the American economy has become a way of life—for the most part, a good way of life. Debt has made it possible for a growing proportion of consumers to enjoy the fruits of mid-century American affluence. From time to time, however, debt has contributed to the bad life, the strife and misery which go with credit unwisely extended, debt unwisely assumed.

These two faces of consumer credit have been increasingly discussed in recent months as installment credit outstanding has soared to record heights, up \$2.3 billion since January 1. Some observers view this growth as a natural and desirable concomitant of present prosperity; others are less sanguine. Whichever side of the fence one sits on, however, the future course of credit is of vital importance, primarily because so much of our economy hinges upon the availability of credit at every stage of the production process, and the willingness of many consumers to buy on credit. A sudden unwillingness on the part of many buyers to use credit, for example, might well play havoc with the nation's economy, as might an excessive surge in the use of credit. Here we take a look at some factors which affect consumer credit growth. On balance, they suggest a rapid rate of growth in future years—perhaps not so rapid as in the early postwar period—but still enough to raise both the level of outstanding consumer credit and repayments relative to disposable personal income.

CONSUMER CREDIT AND INCOME

Since the repayment of principal and interest is typically made out of current income, the level of consumer credit will be affected significantly by the level of income consumers receive. As income rises (and thus as debt-carrying capacity increases), the level of consumer credit will tend to rise.

In the postwar period, every dollar of increase in personal income has been associated on average with a rise of 9 cents in consumer credit. There are reasons to believe that future increases in income may be associated with even larger proportionate increases in consumer credit. What are some of these reasons?

The tax bite

One is simply that consumers may have more income left to spend out of each dollar of income earned in future years. The Revenue Act of 1964 lowered Federal tax rates to a 14–70 per cent range, down from a 20–91 per cent spread. The recent excise tax reduction when in full effect would eliminate or reduce excise levies that currently remove about $5 billion a year from the private sector of the economy. Reductions and eliminations will begin to take effect July 1, and under the President's plan, will be spread out over the next 3½ years.

Working against the cuts in Federal income and excise tax rates, non-federal taxes (such as state and local income and sales and gross receipts taxes) have shown a steady increase in the postwar period—up from less than 1 per cent of personal income in 1946 to more than 4 per cent last year. Other taxes, including the levy for social security, are slated to rise in the future.

Will the funds put into one pocket by cuts in federal income and excise tax be removed from a second by increases in other taxes? Though this is possible, it is perhaps less likely in coming years than in the past. The reason: concern by the Federal Government over the possibility of "fiscal drag." It is reasoned that taxes may pull so much out of business and consumer pockets that initiative will be dulled and the rate of increase in spending will be retarded. To the extent that concern over fiscal drag results in net additions to consumer income after taxes, the use of consumer credit should get a boost upward.

After the rent is paid

Another reason why future growth in income may be associated with proportionately greater use of consumer credit concerns the changing *disposition* of income. Just as more dollars may be left in consumer pockets after taxes, so the consumer in future years may have more dollars to spend after he has met such necessary expenses as food, shelter, and clothing. This additional "discretionary" income can be used to purchase items which are particularly associated with the use of consumer credit. How likely is the consumer to have more discretionary income left over to purchase such items?

The likelihood is high and is associated with what economists call the "decreasing marginal utility" of many of the necessities of life. In simple terms, though the consumer may switch from potatoes to meat, still he can eat only so much meat. And though a momentary glance into the wife's closet may lead one to believe the contrary, there are practical limits beyond which accumulated shoes, dresses, and other articles of clothing lose utility, glamor, and good sense. If such "saturation points" are reached in the purchase of necessities, then rising incomes may indeed be associated more in the future with the purchase of items typically financed with consumer credit. Certainly the trend is in that direction. Between 1950 and 1964, discretionary income—the amount left over after fixed commitments and life's essentials—doubled.

But even if the consumer has more income after paying his taxes and after buying the necessities of life, is he likely to spend this discretionary income on items associated with the use of consumer credit?

Consumer spending patterns in the sixties and beyond

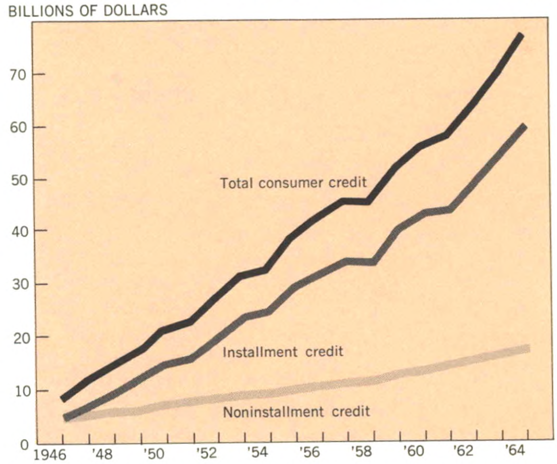
The use of consumer credit traditionally has been associated with the purchase of big-ticket durables such as automobiles and refrigerators. The sharpest percentage spurt in credit came shortly after World War II when the consumer, long denied the fruits of production by wartime priorities, found showrooms packed once more with gleaming steel. Net effect of comparing the old with the new: the jalopy in the garage looked sad indeed with its dents, rattles and tarnished chrome. Consumers by the millions invaded showrooms. With eyes gleaming and down payments in their pockets, they kicked a tire or two, and came home with a new Belchfire 8. They also picked up washers, refrigerators, and other items by the millions and in a few years they were in the market for replacements.

The unleashing of this pent-up effective demand helped double consumer credit outstanding between 1945 and 1947. And as time marched on, so did consumer credit. As shown in Chart I, consumer credit outstanding reached \$38.8 billion by 1955 and was still climbing.

In the latter 1950's and early '60's, however, a question came to be asked more often. That question: now that the bloom was off the postwar boom, would the consumer's wants support continued rapid expansion in consumer credit? Or, alternatively, would jaded appetites cause the consumer to make the final payment, tear up his installment contract, and retire to a reflective contemplation of the verities.

CHART I

POSTWAR GROWTH OF CONSUMER CREDIT



Source: Board of Governors, Federal Reserve System.

Though something may be said for the verities, the consumer's material wants have continued to multiply and the odds are good that a similar pattern will prevail in future years, for the consumer has found credit a useful extension of his purchasing power. Indeed, what now appears a postwar credit mountain, may be only a foothill on the path to higher elevations.

There are several reasons why this may be so. Among them: burgeoning demand for more consumer durables as incomes rise, demand for a wider *range* of durables as leisure increases and tastes shift, demand for second generation durables and for wholly new products as industrial research and development pay off, and

—on the institutional side—adaptability of lenders to finance changing consumer preferences among services as well as goods.

The market for consumer durables: wider and deeper

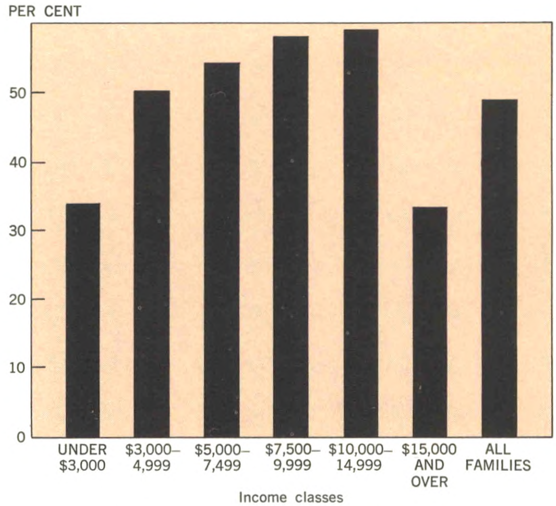
Just as the consumer can be satiated with life's necessities so he can reach an upper limit in his ability to digest automobiles and other durables. So far, however, this point apparently has not been reached. In 1954, 73 per cent of American households owned cars. Last year, 78 per cent of American households owned cars, and of these, 23 per cent had two or more in the garage compared to 12 per cent in 1954.

As more Americans earn higher incomes relative to family necessities, this trend can be expected to continue. The trend, of course, is not limited to cars. Home improvements—the extra bedroom or den—become possible and probable as both incomes and families grow. Swimming pools are less a dream and more a serious subject of family discussion. And with greater income and leisure available to a widening proportion of breadwinners, recreation expenditures involving durables may be expected to rise—expenditures for items ranging from boats to camping equipment.

In short, the market for durables is deepening—more families willing and able to buy two or more items ranging from cars to television sets; and widening—as incomes, leisure, and changing tastes tempt the average man to indulge his fancy, be it a heart-shaped swimming pool or a camping trailer. The trend is evident both to the casual observer and to the statistician. As shown in Chart II, consumer spending on services—which rose persistently as a per cent of total consumer spending through most of the postwar period—leveled off after 1961, while consumer spending on *durables* began to creep upward. In 1964 and early 1965, durable spending accounted for over 14 cents out of every dollar of consumer spending, close to the record rates achieved in the mid-1950's.

CHART II

PER CENT OF FAMILIES, BY INCOME GROUPS, OWING INSTALLMENT CREDIT, 1964



Source: Survey Research Center of the University of Michigan.

Invention and innovation

A second reason why the consumer's romance with credit may be a prolonged affair is simply that American industry is likely to come up with new products and improvements on old ones in the years ahead. A few examples are in order. Color television sales are expected by one industry official to reach a record 2.3 million sets this year, up 65 percent from last year's sales of 1.4 million sets. In future years, as new technological advances bring the price down and as rising consumer incomes bring buying power up, sales of color TV are likely to rise even more rapidly.

ERRATUM

Chart II, page 6 and Chart IV, page 8 are transposed.

Another example of invention is the gas turbine engine, a product which may revolutionize the transportation industry. Even farther on the horizon, research now aimed at space exploration may pay consumer dividends not yet imagined. All these developments will help business capture future consumer dollars, dollars partly earned, partly borrowed.

Borrowing to pay for services

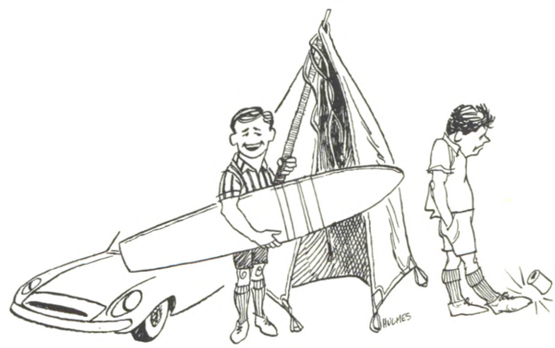
"Fly now, pay later," the advertisement reads, the point underlined by photographs of a tropical beach and bikini-clad bathers. "Education is within the reach of all," the television audience is informed by a deep voice with pear-shaped vowels.

These ads are symptomatic of a significant shift in consumer spending and of an equally significant move in lending to finance that spending. Though consumer spending on services has leveled off relative to total spending, spending on some services such as vacations, medical care, and education, is rising rapidly along with rising incomes. Already consumer lending institutions have recognized these shifts and many now provide credit where it is warranted. To the extent that these institutions in the future stay "on top" of consumer spending patterns, consumer credit will tend to rise along with consumer income.

Still the Joneses?

Despite the popular journalists who deplore it, the psychiatrists and sociologists who dissect it, and the consumers who deny it—status seeking is still a staple in the American economy (as it is among the Masai who measure it in cattle, and among Europeans where bloodlines are in). Being a staple, status is big business. Reportedly, it enters into decisions to buy automobiles (though auto status is now considered a low form of the art), decisions to buy surf boards (higher) and "camp" art (highest—though by the time this issue reaches print, "camp" may be in with the out, thus out with the in). Sociological investigation notwithstanding, the phenomenon of status is behind many spending decisions, hence it means much to those who sell goods and services and—more indirectly—to those who finance them.

It is relatively easy to take a long-run view of consumer credit, especially in an industrialized economy in which rising incomes must be



the dominant theme. But spending and borrowing patterns have short-run components associated with fluctuations in the aggregate level of business activity. Let us look at some of these.

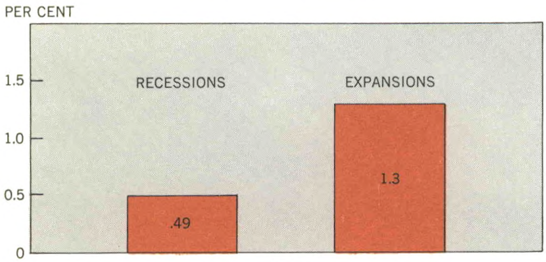
The ups and downs of the business cycle

If a family's income falls sharply and suddenly —as it might during a business recession—what adjustment in spending is likely to occur first? Answer: the family is likely to cut spending on non-necessities such as the air conditioner or the home freezer that had been planned. What is the effect on consumer credit of such postponed spending? To the extent that consumer debt is associated with durables and other postponable items of consumer spending, the outstanding debt tends to fall (or its rate of increase declines).

The postwar experience seems to bear out the notion that credit grows more rapidly during expansions than recessions, as Chart III shows. Is it possible that future business fluctuations will be more moderate, hence giving further momentum to the growth of consumer credit?

CHART III

AVERAGE MONTHLY RATES OF GROWTH OF OUTSTANDING CONSUMER CREDIT IN THE POSTWAR PERIOD



Source: Derived from data from Board of Governors, Federal Reserve System.

It is impossible to explore here in any great depth the complexities of the business cycle. It *is* possible to point out, however, that monetary and fiscal authorities in the past decade or so have learned more about factors affecting the business cycle, and are making more effective use of anti-cyclical devices to moderate, if not eliminate, cyclical fluctuations. The duration of the present expansion, now in its fifth year, may be an indication that appropriate uses of official policies can sustain periods of expansion beyond those of past years. In an economy with more moderate swings in the level of aggregate economic activity, people may be more willing to assume debt and financial institutions may be more willing to extend credit.

But there is more to the story of consumer credit than has been told so far. Though the willingness of consumers to go into debt is affected significantly by the *level* of income relative to fixed commitments, and by the *pattern* of expenditure, it is also influenced by who has the income to spend, that is, the *distribution* of income.

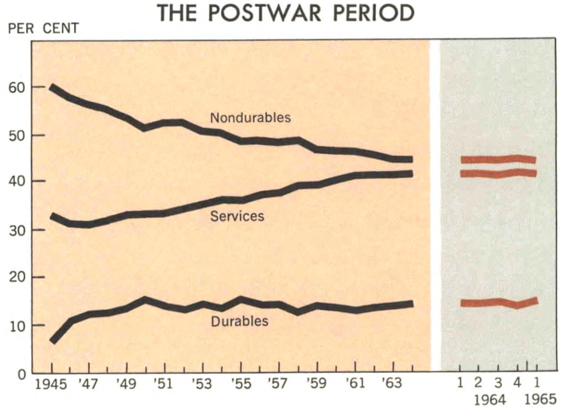
Bulge in the middle brackets?

A factor which has been of great significance in the development of our high-consumption, credit-oriented industrial economy has been the movement toward greater equality in the distribution of income. Obviously, the very rich don't need consumer credit and the very poor can't get it (or much of it). It is the middle-income brackets that are the big users of consumer credit, as shown in Chart IV, and to the extent that the middle brackets bulge further in coming years, the environment will be favorable to further expansion in credit use. What is the likelihood of such a middle-bracket bulge?

One factor which will bear critically on this question in years to come is the success (or lack of success) of the Administration's anti-poverty

CHART IV

CONSUMER EXPENDITURES, BY TYPE, AS A PER CENT OF TOTAL CONSUMER EXPENDITURES IN THE POSTWAR PERIOD



Source: Department of Commerce.

programs. Today, according to Administration estimates, about 35 million Americans—roughly one-fifth of the population—are poor, nonsharers in the general affluence. These people consume primarily life's essentials, and in some cases not even enough of these. Insofar as consumer credit finances mainly nonessential purchases by steadily employed individuals, credit data may not reflect the activities of many of the nation's poor, nor, more significantly, their potential credit demand.

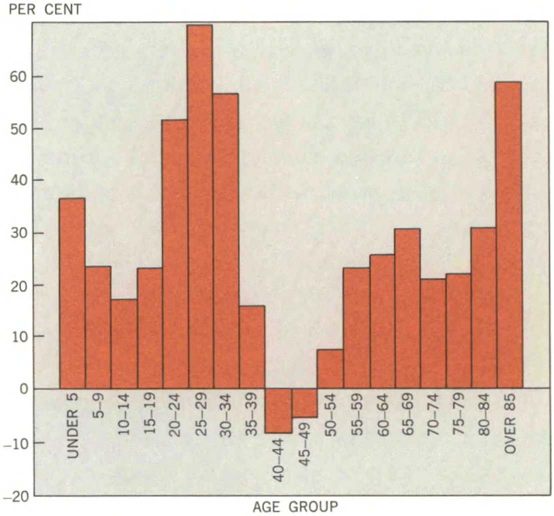
Should national anti-poverty efforts be rewarded, millions may join the ranks of the employed and the borrowing public. Inclusion of some or all of these individuals in the national well-being would have great human significance and substantial economic effects. Their effective demand would spur production of such goods as cars, appliances, houses, and the like. Given the close relationship of consumer credit to the sale of these items, a jump in consumer credit might be anticipated. Even a modest success could be measured in the consumer credit data in the billions of dollars.

Demographic Change

Another important aspect of income distribution that affects the use of consumer credit is the spread of income among age groups. Other things remaining the same, young persons, especially married ones, tend to be net borrowers in their early adult years. Setting up a home, buying a car, having children, all cost money, and young people frequently go into debt during this period.[1] If in future years the proportion of younger people in the population grows rapidly, then we might expect an additional spurt in the use of consumer credit.

CHART V

PROJECTED CHANGES IN THE U. S. POPULATION BY AGE, 1965–1980



Between 1965 and 1980, as Chart V shows, the age groups from 20 years to 24 years are expected to increase by more than 50 per cent, with the 25–29-year group increasing almost 70 percent. Today's teenagers, about 23 million of them, will soon be neophyte workers spending their own money and borrowing on their own credit.

In the next few years, also, a rise in outstanding mortgage credit may be anticipated because of the strong demand that young persons will make on the single-family home market. Accompanying this demand will be an equally strong demand for home furnishings and appliances—goods which are frequently bought with the help of consumer credit. In his budget message to Congress, the President noted that 1.7 million new families were formed in 1964. This figure will rise in the coming years. Assuming

[1] A financial newspaper reports that young adult buying of many of the sportier automobile models has been instrumental in the surge of auto buying in the first half of this year. The paper reports that "fully half" the buyers of one popular sports model are in their twenties. "Ford Division reports that the average age of the Mustang buyer is 31 years," the paper reports. The Mustang is a low-priced sports car introduced by Ford last year.

continued economic growth, it is reasonable to project a significant increase in consumer debt on demographic characteristics alone.

Before reaching too firm a conclusion on this point, however, it is well to insert a word of caution. It is precisely among the younger age groups—especially among teenagers—where the problem of unemployment is greatest. Today's teenagers will account for tomorrow's family formations and these teenagers must have the skills and education necessary to hold a job in an increasingly automated society if they are to enjoy the fruits of mid-century American affluence. Hence the great importance of efforts today to prevent school dropouts, to provide remedial education and job training where needed, and in general to eradicate poverty, the pestilential breeding ground of the unskilled and the under-educated.

CONSUMER CREDIT AND ATTITUDES

Another factor which will have a profound effect on the future use of consumer credit is an ethereal commodity called "attitude"—the consumer's feelings toward the wisdom and probity of going into debt.

Historically, borrowing has been a subject for scorn. In the Aprocrypha it is written: "Be not made a beggar by banqueting upon borrowing." In the 13th century the sterility of money and the sin of usury were stressed by Thomas Aquinas. The 19th century French author, Victor Hugo, wrote that "A creditor is worse than a master; for a master owns only your person, a creditor owns your dignity. . . ."

With this background, it is not too surprising that early twentieth century attitudes toward consumer borrowing were something less than favorable. What happened to change these attitudes? Perhaps the dramatic shift in attitudes stemmed from the culmination of the industrial revolution in the United States. With the maturation of our industrial economy has come not only the much wanted consumer durable goods but also a sharp rise in real income and leisure time. In real terms, today's factory worker earns more than twice what his predecessor earned in 1929. Since 1920, moreover, the average factory workweek has shortened by about seven hours, and is now at around 41 hours per week.

Since 1945 there have been at least three additional factors influencing popular attitudes toward borrowing—confident expectations, lending institutions, and the passage of time which has bred a new generation with new ideas on debt. All of these factors will have an important bearing on the course of consumer credit in coming decades.

Rosy expectations

Traditional apprehension about being in debt has eased because many Americans are confident that their economic future is bright. Borrowers and lenders normally enter into credit arrangements only when they have positive expectations about their financial futures. The economy's strong performance in the postwar era has borne out and reinforced the positive expectations of many. A recent survey of consumer sentiment shows that Americans are more optimistic about their economic prospects than at any time since 1956.

Growing lenders

Attitudes toward credit have been affected by the growth and proliferation of financial institutions throughout the nation. Finance companies, commercial banks, credit unions, and other lending institutions have grown apace. Commercial banks have the largest share of the consumer loan market, followed by finance companies and credit unions.

With increasing supplies of lendable funds to employ, these institutions early in the post-war period began to eye the consumer as a possible outlet. Many institutions which previously had little or no consumer loan business moved into the market in a big way. Those which previously made only secured consumer loans began to make loans for vacations, education, and the like. Terms were tailored to make borrowing attractive. The obvious approbation of respected financial institutions has probably had an important influence on attitudes toward consumer credit.

Competition among these institutions has been, and will continue, fierce, and for good reason. Consumer lending can be extremely profitable. This profitability, in fact, may lead to even greater competition. Savings banks in New York have been waging a vigorous campaign to convince populace and legislature that savings banks should be permitted to extend personal loans, which they cannot currently do. There also have been efforts to enact legislation to permit savings and loan associations to make installment loans. A bill introduced in the House of Representatives this year would permit Federal savings and loan associations to make consumer loans for major household durable goods and furnishings. Under Title IX of the Housing Act of 1964, these institutions may make college aid loans to students.

In short, the competition of financial institutions will have an important effect on the growth of consumer credit. Such competition tends to generate both a favorable attitude on the part of the consumer toward the *use* of consumer credit and a favorable opportunity to *obtain* consumer credit.

The young 'uns

In this decade another factor has contributed to the attitudes toward borrowing—the coming of age of a generation which never experienced the 1930's. With untarnished optimism, young people frequently project their economic futures in the rosy terms of the present, irrespective of what actual conditions may be expected to prevail. Rightly or wrongly, they are translating this youthful confidence into debt and new attitudes regarding its probity.

Now, not later

Attitudes of many consumers in this country also reflect the idea that living now is preferable to living later, primarily because the future is one big question mark. This question mark particularly results from uncertainties of living in a thermonuclear age. It is buttressed by the traditional American affinity for material values and by the general impatience and fast pace of life at mid-century. Along with the affluence and the leisure to do so, the question mark philosophy of "live now" is an important component of the consumer's decision to buy.

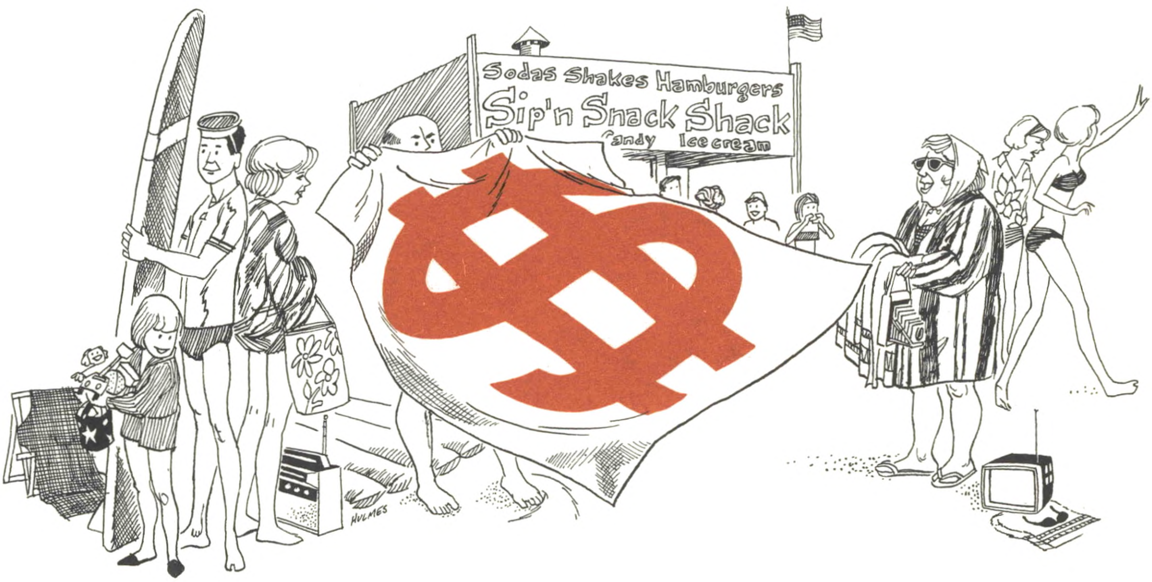
IN CONCLUSION

As for the question posed at the outset of this article—whether consumer credit in coming years will show the vigor of youth or will succumb to a middle age paunch—the evidence seems to point to vigor, perhaps a more mature vigor but enough to avoid the sag of middle age. Installment credit outstanding in the next five years could easily repeat the 50 per cent growth of the past five, with the ratio of installment repayments to disposable income passing the 15 per cent mark.

That is not to say that barriers to consumer credit expansion do not exist. The scope for further easing of credit terms, hence the attraction of additional credit customers, certainly seems more limited than in the mid 1950's. In addition there is a much wider ownership of durable goods now than in the early postwar period, hence the demand is less voracious. Still, with rising discretionary income and with income spread more evenly among the purchasing public and more concentrated in the hands of high-spending younger age groups who are favorably disposed toward the use of consumer credit, there would appear to exist both the wherewithal to buy and the will to buy. If industry continues to turn out more and better examples of a widening variety of products (and if consumer lending institutions remain eager to finance the purchase of those products) the other side of the equation would seem to be in order. The ingredients are there for a significant upswing in consumer credit, an upswing which could dispel even further the idea that some natural lid exists on consumer repayments as a per cent of disposable income.

This is not to say that credit should or will be pushed on consumers without sober judgment of the risks. Indeed, the lessons of theory and experience tell us that, over the longer run, the environment most conducive to the sustained *growth* of consumer credit is the sensible *use* of consumer credit. To the extent that both borrowers and lenders exercise discretion in entering into consumer credit contracts in the future, then the *most* favorable environment will exist for credit growth.

A FOUNDATION OF SAND



Economic well-being of the New Jersey seacoast in the Third Federal Reserve District rests primarily on a foundation of sand—fine white sand that softly carpets 90 miles of shoreline from Point Pleasant south to Cape May Point. Surveys tell us that the lure of sandy beaches is the chief reason vacationers come to the seashore. Without the sand, and the millions of dollars it attracts each summer season to the area, coastal Ocean, Atlantic, and Cape May counties might well constitute New Jersey's Appalachia.

This fact surprises no one, but it does alarm a few. These are the bankers, businessmen, and civic leaders who, conscious of the vulnerability of a one-industry economy, have long advocated that the area diversify its business base. Attempts to bring in manufacturing industries have been and are being made. Results of these efforts to date are inconclusive.

The huge resort business

It is difficult to measure precisely the magnitude of travel and resort business. One effort to do so by New Jersey's Department of Conservation and Economic Development estimates that tourism in 1965 will generate income for the three southern coastal counties approaching one and a half *billion* dollars.

The Department computes this figure by determining the number of new dollars brought in by visitors. It does this by surveying banks, local governments, and the multitude of businesses that offer tourist-oriented services. These dollars are arbitrarily multiplied, on the principle that each dollar is spent more than once, and that each transaction produces additional value and income. The multiplier used is three, a relatively conservative number; other states use multipliers as high as 10 for similar purposes.

If past experience holds true, Atlantic City alone will take in 900 million "generated" dollars in 1965, or about $6 out of every $10 spent by visitors in the three counties. The Wildwoods will realize $150 million, Ocean City, $120 million, Cape May City more than $15 million. In terms of absolute new dollars—generated dollars divided by three—Atlantic City should get more than $5,000 per permanent resident from tourists this year.

Getting bigger

The resort and travel industry in Ocean, Atlantic, and Cape May counties is growing. For the five years 1960 through 1964, dollar volume generated by tourists has gone up about a quarter of a billion dollars, or 20 per cent. The rate of increase each year has tended to mirror general economic conditions; whereas 1961 gained only 1/10 of 1 per cent over 1960, 1964's increase over 1963 was 5.9 per cent. This year, expectations (based on advance reservations, new construction for transients, national and state prosperity, and other indicators) are that generated dollar volume will rise about 5 per cent.

Many question the validity of "generated dollar" estimates. Other indexes are available, however. Although each is an imperfect indicator, several taken together give further evidence that tourism in southern New Jersey is indeed growing.

Bank debits—roughly, the amount of business transacted by check—have risen 43.5 per cent in Atlantic City over the past five years. (In Lancaster, Pennsylvania, a prosperous, highly-industrialized community that consistently posts one of the lowest unemployment rates in the Third Federal District, bank debits for the same period rose 45.8 per cent.) Not all of the increase that has taken place in Atlantic City can be attributed to expanding vacation business, but since so many enterprises are devoted to tourism, much of the growth in debits can be assigned to it.

Highway traffic may serve as another indicator. The Garden State Parkway has seven toll gates in Ocean, Atlantic, and Cape May counties. In 1960, they collected tolls from slightly more than 9 million passenger vehicles; in 1964, from over 12 million. This gain of one-third over five years cannot be attributed solely to vacation travel, but supporting data—exit ramp traffic and summer-month Parkway usage—tell us that much of the increase is caused by vacationers to the area.

Other series testify to mounting resort and travel business activity in coastal southern New Jersey. Retail trade in Atlantic County, concentrated in the three prime vacation months of June, July, and August, rose by 20.4 per cent from 1958 to 1963. (Comparable figures for Trenton and Newark, New Jersey, and Philadelphia, Pennsylvania—each non-resort areas presumably active for 12 months each year—are 21.6, 15.1, and 16.1 per cent, respectively.) Atlantic City's Luxury Tax receipts—an impost on rooms, amusements, and liquor—for the first five months of 1965 are 5 per cent ahead of last year's collections, when Atlantic City hosted the Democratic National Convention.* Total convention attendance in Atlantic City in 1964 was approximately 419,000, compared with 325,000 in 1960; advance bookings for 1965 indicate even greater attendance this year. New motel construction in the three counties, from 1960 through 1964, added 50 per cent to total capacity—12,500 motel rental units in 1959

* The Luxury Tax also embraces tobacco. This portion of the tax is not directly assignable to specific months, and so is excluded here.

versus 19,000 the beginning of this year. An additional 1,000 units are now being built in Atlantic City alone, all scheduled for occupancy in 1965.

Other industries

While the R & T industry in Ocean, Atlantic, and Cape May counties has been surging upward in the past five years, progress made there by industries unrelated to tourism has been more modest. Total insured employment in all manufacturing industries in the three counties was 11,980 in September, 1960, 13,266 in September, 1964—a gain less than 11 per cent. (Not all of this increase was unrelated to tourism; for example, employment has risen substantially in area boat building firms in recent years.) For the same period, insured employment in wholesale and retail trade establishments grew from 20,870 to 25,924, a gain more than 24 per cent. In a category directly related to tourism—eating and drinking places—tri-county insured employment rose from 7,396 to 10,236, a gain of over 38 per cent.

Additional evidence that service industries are forging ahead faster than goods-producing industries is provided by NAFEC—National Aviation Facilities Experimental Center. This Federal Aviation Agency installation near Cardiff, Atlantic County, has doubled its civilian employment since 1960. It is now the largest single employer in the three counties. Its present complement of 2,100 civil service employes, with an annual payroll of $15 million, seems destined for further growth, for this proving ground for civilian aviation devices is the only one of its kind in the United States.

There is one other seashore "industry" that is experiencing rapid growth. It centers around the increasing numbers of retired persons who are making the area their permanent home. Their bank accounts and pension and Social Security checks are stimulating the construction industry, and support all the year 'round local tradesmen who formerly closed shop the end of each vacation season. In a fiscal sense, senior citizens are a most profitable "industry"—in return for taxes, they require none of that most costly of current municipal services, new primary and secondary schools.

Reasons for disappointing industrial growth

From a number of aspects, the coastal counties of southern New Jersey should be most attractive locales for industrial expansion. They are near major market areas—New York, Philadelphia, Baltimore-Washington—and have excellent highway access to them. Flat, easily cleared land is available in abundance—by 1960, almost 40,000 acres in the three counties had been set aside for industrial use only. Potable water and electric power are plentiful, and more of each could quickly be developed. In general, tax rates seem competitive with those in adjacent counties and states. Opportunities for employe recreation are almost without parallel, and they are inexpensive.

Why, then, is industrial expansion disappointing in the three counties? Those who for years have labored in the cause of industrial development offer some opinions.

One deterrent is the proved success of the resort and travel industry. Tourism is a going business in the area, and has been for decades. The seashore is uniquely suited to vacation-oriented businesses by reason of climate and topography. Local expertese in managing and operating service-type businesses abounds. Some workers seem to prefer seasonal employment that the R & T industry offers, work for which they need no further training. There seems less risk to lender and laborer alike to invest in established pursuits. It's the easy thing to do.

A second thought is that all of southern New Jersey, not only the coastal counties, is open to industrial expansion. Burlington, Camden, Cumberland, Gloucester, and Salem counties offer many of the same qualities that are indigenous to Ocean, Atlantic, and Cape May counties—land, water, power, highways. Less distant from the New York-Philadelphia-Washington axis, the western counties have a comparative advantage in participating in these markets. They can draw more easily on the major labor market of metropolitan Philadelphia. They can more readily utilize the inland port facilities of the deepwater-channeled Delaware River. Reciprocal commerce with concentrated industry nearby is more open to them. Some believe that industrialization will not leapfrog to the Atlantic Coast, but that the western counties must first become saturated before the eastern counties can share fully in industrial expansion.

Lack of any college-level educational facility in Ocean, Atlantic, and Cape May counties is held to be a drawback to industrial growth. Scientific and managerial personnel of prospective industry prefer to relocate into an area that offers research and library facilities, and technical consultants, at the university level. (Princeton, New Jersey, is cited as a too-close-for-comfort example). Prospective residents look critically at school and college opportunities within the community, for their children and for themselves. Further, high school graduates in the three counties are now "exported" to other states where they can attend college. Too often these promising citizens, exposed to employment opportunities in new environs, fail to return home when they are graduated. If an educated labor force tends to attract certain kinds of desirable industries, then its absence may tend to repel them.

Other reasons advanced as present hindrances to industrial development of southern New Jersey's three coastal counties include: a dearth of trade skills in a populace long conditioned to employment in occupations that do not require these skills; lack of a public agency that would help finance incoming industry, such as neighboring Pennsylvania's Industrial Development Authority (PIDA); legal restrictions that prohibit giving tax advantages to new industry. And, perhaps as cogent a reason as all the rest, the concept that the dominant area industry—tourism—is so successful in providing employment, income, and outlets for capital funds that there is no universal public thrust to attempt to attract new industry despite all obstacles, real or imagined.

Time and the sand

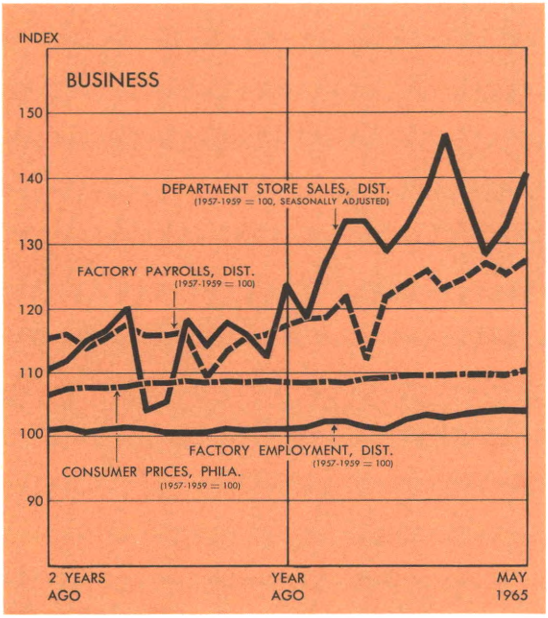
Some say that although the resort and travel industry may now be a barrier to development of other industry in Ocean, Atlantic, and Cape May counties, its success also provides the counties with a priceless ingredient to orderly and selective growth . . . time. So long as tourism generates as much income and tax revenue as it does, the counties can afford the luxury of patience. They have a viable industry that damps a sense of urgency; they feel no imminent pressure to subsidize venturesome new businesses such as some areas, not so fortunate as they, have been compelled to do.

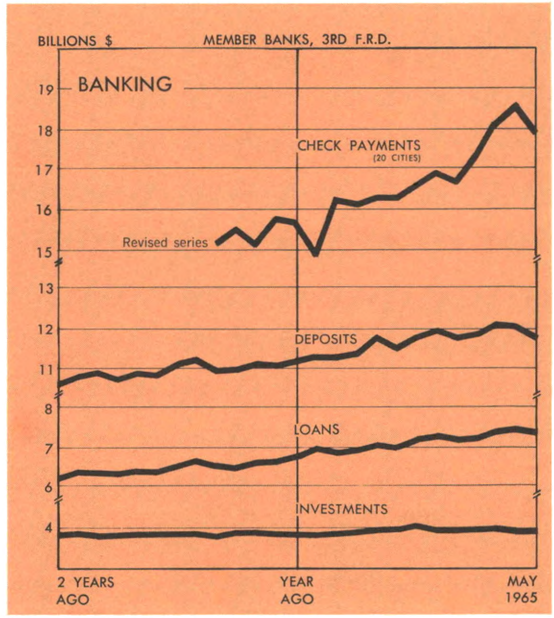
Others, concerned by hard statistics, say that the seashore's chronic incidence of high unemployment (an average 7.8 per cent in Atlantic County in 1964, versus the state's average 6.1 per cent) is compelling reason enough to work harder for industrialization. A counter-argument offered to this is that seasonal employment, and hence seasonal unemployment, has been a way of life for generations of seashore residents; that they earn enough in three or four months' hard work to sustain them for 12; and importantly, they like it this way, and wouldn't change it if they could.

Whichever view is valid—and perhaps a middle ground is nearer to actuality—time is an ally in dissolving some of the present encumbrances to industrial expansion. It will help fill the industrial vacuum in the western counties. It will permit establishment of wanted facilities; within two years a community junior college and a graduate school of aerospace technology should be realities in Atlantic County. At some future date an expanding national population, by force of numbers, should invest the coastal counties with citizens equipped with industrially necessary skills. Time by itself, however, means little. Like any natural resource, it must be developed and used with energy, foresight, and imagination.

Meanwhile there is that lovely white sand, and all that it means to coastal southern New Jersey. And all that it could mean, in terms of an incentive to new industry. Other communities competing for industry may be able to offer land and water and power. Few in all the nation, however, can provide the superb recreational facilities that nature has given Ocean, Atlantic, and Cape May counties. The sand that lures the tourist can at the same time be a persuasive incentive for the industrialist who yearns to fish 10 months each year—or his wife who seeks a golden tan—to relocate to the seashore.

FOR THE RECORD...





SUMMARY

	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	May 1965 from		5 mos. 1965 from	May 1965 from		5 mos. 1965 from
	mo. ago	year ago	year ago	mo. ago	year ago	year ago
MANUFACTURING						
Production	....	....	....	+ 1	+ 8	+ 9
Electric power consumed	− 1	+ 9	+ 8	....	....	....
Man-hours, total*	+ 1	+ 7	+ 8	....	....	....
Employment, total	0	+ 4	+ 4	....	....	....
Wage income*	+ 2	+10	+10	....	....	....
CONSTRUCTION**	−11	+24	+16	+ 2	+ 5	+ 2
COAL PRODUCTION	+39	+29	+11	+ 6	+ 7	+ 7
TRADE***						
Department store sales	+ 6	+ 7	+ 5	....	....	....
BANKING (All member banks)						
Deposits	− 2	+ 6	+ 8	0	+ 9	+ 9
Loans	− 1	+ 9	+11	+ 1	+14	+14
Investments	0	+ 3	+ 2	− 2	+ 3	+ 3
U.S. Govt. securities	− 1	− 4	− 4	− 2	− 5	− 4
Other	+ 1	+15	+14	− 1	+15	+14
Check payments***	− 4†	+14†	+15†	− 6	+ 6	+10
PRICES						
Wholesale	....	....	....	0	+ 2	+ 1
Consumer	0‡	+ 2‡	+ 1‡	0	+ 2	+ 1

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

†15 Cities
‡Philadelphia

LOCAL CHANGES

	Factory* Employment		Factory* Payrolls		Department Store Sales†		Check† Payments	
	Per cent change May 1965 from		Per cent change May 1965 from		Per cent change May 1965 from		Per cent change May 1965 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Lehigh Valley	− 1	+ 6	− 3	+13	....	....	− 3	+10
Harrisburg	− 1	− 1	− 1	+ 5	....	....	− 1	+14
Lancaster	0	+ 3	+ 3	+ 7	+11	+12	− 2	+14
Philadelphia	0	+ 3	+ 2	+ 9	+ 7	+ 6	− 7	+10
Reading	+ 1	+ 5	+ 6	+ 9	0	− 2	− 7	+ 4
Scranton	− 1	0	+ 1	+ 4	+ 5	− 2	− 2	+17
Trenton	0	+ 1	+ 1	+ 2	+10	+11	− 1	+17
Wilkes-Barre	0	+ 2	+ 2	+ 3	+ 8	+ 5	− 1	− 5
Wilmington	+ 1	+ 5	+ 3	+12	+ 6	+ 9	+ 8	+39
York	0	+ 7	+ 6	+14	+ 6	+ 5	− 1	+ 9

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