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ECONOMIC ACHIEVEMENT AND GROWTH

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In recent months critics have questioned the ability of the American economy to meet the international challenges of our era. They have argued that our economy must grow more rapidly than it has in recent years. They have rallied round a growth rate of 5 per cent as a way to achieve both national security and opulence -- missiles and hi-fi sets. They have shrugged off the threat of inflation and have shown little interest in the apparatus of the free market.

Their promise is enticing, but I think it warrants close inspection. I question whether the current progress of our economy puts us in any immediate danger. I am convinced that over the long pull, plans to stimulate economic growth that disregard the corrosive effects of inflation and accept direct controls will be self-defeating.

Criticism of the rate of growth of the American economy is of recent origin. For many years there was widespread agreement that the economic achievements of the free enterprise system in the United States had been quite adequate, if not remarkable. The long-term rate of growth of the gross national product in the United States has been about 3 per cent a year, compounded. Without trying to prophesy or predict, but just to get an idea of what this sort of growth means, let us project this historical rate into the future. Our current real gross national product -- which now provides us the highest standard of living in the world -- would double by 1984. (This is a somewhat more pleasant prospect than the one visualized by George Orwell for that particular year.)

Free enterprise has proved to be a "powerful engine" for economic growth. If it repeats its past performance in the future, it would go a long way toward eliminating "anything that according to present standards could be called poverty." (Joseph Schumpeter, CAPITALISM, SOCIALISM, AND DEMOCRACY, p. 60.)

The recent concern over our economic achievements stems directly from the challenge flung by Soviet Russia. The Russian rate of growth since the end of World War II has been rapid, and in the next seven years the Russians plan to increase their gross national product at an average rate of about 7-1/2 per cent a year. This is more than double the historical rate of growth in the United States. The Russian plan is of great significance in the economic and military competition in which we find ourselves. It could have a serious impact on our national security. The underdeveloped countries of the world are looking to the major industrialized countries for economic aid and encouragement; and in this atomic and electronic age, the cost of military hardware seems to be continually on the rise.

But our remarkable economic achievements of the past are not made less remarkable by the postwar Russian achievements and Russia's current plans. We have had and still have a dynamic and growing economy. Let me also add that the achievements of our economy cannot be simply measured by a percentage rate of growth. We have enjoyed other abundant values stemming from our economic system, which I shall discuss presently.

Perhaps the Russian economy can grow as rapidly as is planned, perhaps not. Economic growth in most countries, including Russia, has been an uneven process of pauses, drift, and spurts. In any case, I would urge that we do not respond to this Russian challenge in desperation. Desperation and disaster frequently march hand in hand. Fortunately, we need not resort to desperate measures. The achievements of our economic system over the past century will now serve us well.

Even if the American economy grows no faster in the near future than it has in the past there would be no sound reason to feel that we have thereby lost the international struggle. In 1958 our gross national product was $438 billion. Russia had a comparable output of goods and services of just under $200 billion. If the Russian economy grows at a rate of 7-1/2 per cent for the next seven years, its real (1958 dollars) gross national product would be about $330 billion in 1965. If the United States grows at a rate of 3 per cent a year over the same period, its gross national product would have increased to well over $500 billion.

Furthermore, if the American people wish to increase the growth rate, there is no doubt that it can be done. In this connection, let me repeat that economic growth is only one of the ways to measure the achievements of an economy. One of the important commodities that American people have enjoyed in continually larger quantities over the past half-century is not included in any of the growth rates that are calculated. I am thinking of the commodity we call leisure. Increased leisure certainly provides satisfaction, and the true output of our productive efforts can only really be measured in terms of satisfaction. The pounds and gallons and yards that enter into our production indices would hardly be worthwhile in and of themselves.

In a recent talk in Chicago, Mr. Frederick L. Deming, President of the Federal Reserve Bank of Minneapolis, made some interesting comments on the relationship between productivity, growth, and leisure:

> "Almost by coincidence, productivity or output per manhour, the combined result of improved technology and more and better capital goods, has grown in this country at an annual rate that comes fairly close to equalling the annual growth rate of output. Productivity has increased by about 2-1/2 per cent a year compounded in this century. Like the output curve, the course of productivity shows jumps, slips, and levels, as we would expect. But the striking point to observe about this factor of productivity is that given today's technology, we could be producing far more than we are if we wanted to work as hard and as long as we did 50 years ago. What has happened is that we have taken about half of our productivity gains in the form of increased leisure and about half in the form of more output."

Our growth rate, then, depends in part on how we allocate our time between work and leisure.

Our national security depends, in part, on the extent of our military arsenal; and this depends on how we allocate our work time between military projects and the civilian economy. Because our economy has worked so well over a long period of years, the United States, for the near future at least, will continue to be the most productive nation in the world. This means there are two ways in which we can successfully meet the international challenge. We can devise ways and means of growing more rapidly and we can reallocate resources to promote more adequately national security.

On the production level, I do not believe that the United States is in any immediate danger. But, some contend, cold wars are fought with "news releases." There are large numbers of politically uncommitted people in underdeveloped countries. These people are faced with enormous economic problems. With modern medical treatment cutting down their death rates their populations are expanding rapidly; and there is some question of the ability of their economic systems to accommodate these vast numbers.

In attempting to win over these people, the Russians will compare their rate of economic growth with ours. The relative rates of growth become a maneuver in international affairs -- just as the number of bathtubs used to be and as the number and weights of man-made satellites are today.

Growth-rate competition on this level is by and large a part of a wider competition extending to many areas designed to establish a relative order of international prestige. While this should be recognized, we may still be persuaded that it is desirable to accelerate our rate of economic growth. We should bear in mind, however, that it would be extremely costly to try to duplicate the rate of growth in Russia by imitating that country's methods.

Some have suggested that we stimulate growth by having the Federal Reserve and the Federal Government follow policies to increase aggregate demand. While those taking the position realize that at present this might result in price inflation, they are not too concerned. They, at least are prepared to assume the burden of inflation and if it proceeds too rapidly are prepared to resort to direct wage, price, and consumer credit controls. The most probable results of increasing aggregate demand at present are rising prices. Changes in the structure of our economy in recent years, which have seemed to make prices and wages flexible only in an upward direction, have seemed also to weaken the resistance of our economy to inflationary forces. Moreover, the chances are that a gradual inflation, once it has been accepted as inevitable, could not be contained. When individuals believe prices are going up, a minimum of economic sophistication dictates that they buy now rather than later. This, of course, would accelerate any anticipated increase in prices.

Now, I believe that inflation -- because it has an uneven impact on different groups of individuals -- is unfair and undesirable and considered so by most of the American people; this was one of the major reasons for having direct controls during World War II -- but World War II was an emergency with a foreseeable end. We are now engaged in a struggle with no foreseeable end, and direct controls, once imposed, would be, I fear, of indefinite duration. If the only alternatives were rapid inflation or direct controls, I think it is likely that choice would be direct controls. Therefore, before embarking upon a course that will most likely lead us to this end, I think it would be well to examine the costs.

The United States fortunately has been endowed with abundant natural resources. But in the United States, we have traditionally depended on individuals to organize these resources in the most efficient ways possible and to promote technological progress. This dependence on the individual is not anarchy; the efforts of individuals are organized and directed by the price system and by free markets; they are stimulated by the prospect of profits. The economic freedom permitted by this kind of system has proved workable. Economic expansion has been rapid and efficient.

Establishment of direct controls over wages and prices requires that we forego the market and the price system as a means of allocating resources and rationing goods and services. Since people would demand more goods than were available at ceiling prices, new methods of distribution would have to be devised to determine whose demands would be met and whose denied. As our experiences during World War II plainly indicated, we would be forced to distribute our resources on the basis of a centralized rationing system. The abrogation of the market-price system would entail its replacement by a widespread, far-flung system of planning and control -- a system that would be costly, inefficient, and frustrating.

Consumer credit controls seem to interfere less with the workings of the free enterprise system than do direct wage and price controls. But over the long run they could seriously impair our military potential unless coupled with a system of resource allocation incompatible with free markets. Those who recommend more rapid growth to promote military security (especially in the heavy industries) and who propose consumer credit controls to handle inflation would do well to consider this. By and large, the kinds of goods that are bought on credit are durable goods -- automobiles, refrigerators, freezers, washing machines, etc. The industries that produce these goods are the industries that we have traditionally depended upon for the production of our military weapons during wartime emergencies. For the most part in the past, these industries have expanded in peacetime because consumers wanted the products they produce and, consequently, in wartime they had large capacities to meet military demands. If we attempt to limit consumer demand for the products of these industries, we can only maintain and expand their capacities by expanding Government demand. We may be able to keep these industries expanding by having the Government assure them of continually expanding sales and pay them sufficiently high prices to permit them to attract resources away from other industries; but this would mean rising prices, and that is something we wish to avoid. The other way is to have the Government control prices and allocate the flow of resources; and this entails, for as far into the future as we can see, the abrogation of the free market system.

It is not necessarily wise to do a thing a certain way just because we always have done it that way. But I think there would be good reason for concern in the abrogation of the competitive system in the United States. Let me point out that the competitive system is not only a means to an end but it is an end in and of itself. You may recall that in the Employment Act of 1946, Congress declared that the goals of maximum employment, production, and purchasing power should be achieved "in a manner calculated to foster and promote free competitive enterprise." These words are significant. There are individual satisfactions and social rewards deriving from an economic system that permits individuals to succeed and advance in society on the basis of their foresight and efficiency. And while I am not an historian, I have always thought it no simple coincidence that the emergence of democracy as we know it in the western world and the development of free markets coincided.

The dispersion of power implicit in a competitive economic system is valuable in and of itself. Concentrated economic power as well as concentrated political power puts the destinies of many in the hands of few. While some advocate this as a more efficient or wiser method of operation, the American answer, framed by Thomas Jefferson, seems convincing to me. Jefferson remarked: "Sometimes it is said that man cannot be trusted with the government of himself." But, he asked:

"Can he then be trusted with the government of others? Or have we found angels in the form of kings to govern him?" This, I think, is the basis of the American opposition to monopoly, whether it be a state monopoly or a private monopoly. The dangers of monopoly in the banking sector of our economy were recognized by your Secretary, Mr. Ben DuBois, in his testimony before the Senate Committee on Banking and Currency last month.

I am convinced that in general local banks have the greatest opportunities to help their communities grow and to share in that growth. I shall not develop the reasons for that judgment because they are familiar to all of you. I must confess, however, that not all banks are making the most of their opportunities.

One aspect gives me particular concern. It is the problem of management succession. As you know, one of my responsibilities is to keep informed of developments at member banks in the Third Federal Reserve District. As I read the reports, I am struck by the number of banks that apparently have devoted too little attention to their own futures.

A bank is a corporation; as such it has been granted a charter in perpetuity. Now, perpetuity is a very long time indeed -- longer, in fact, than anyone in this room or in any bank will live. I have known bankers to be efficient chief executives into their eighties -- efficient, that is, in all respects save one. They have not prepared anyone to take their place.

As I observe bank mergers, I find one of the prime elements is this lack of management succession. Younger people must be trained to assume responsibilities when older people pass from the scene. If they are not trained to shoulder the more demanding duties or they do not want to shoulder them, the bank will suffer. If the bank does not have people prepared to take over, it will find other institutions ready and willing, and will be tempted to accede. Planning for the perpetuation of our institutions chartered in perpetuity is a necessary part of maintaining the competitive economic system.

In embarking on any new program to accelerate economic growth in the United States, we should compare the probable costs with the potential gains. A more rapid increase in gross national product is desirable. But leisure has a value also and so does our free competitive, economic system. The United States is sufficiently productive now and will continue to be in the foreseeable future to "afford" all the time, effort, and resources needed for national security, or at least "better afford them" than any other nation in the world.

In considering the costs and the gains, we would do well to remember that we are in a marathon and not a 100-yard dash. If we keep this in mind we will not have run our race before it is over — and we will not be weary should we need a final spurt.

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