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THE QUEST FOR SECURITY

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I am happy to have the privilege of speaking to you today. The business climate certainly has changed since we met a year ago. At that time, hindsight tells us, the economy was at the bottom of a recession and just beginning to rebound. But the statistics of that moment were discouraging.

This year all that is changed. Gross National Product, industrial production, personal income and some other comprehensive measures of economic activity have recently broken through into new high ground. In April, employment was higher than in any previous April in our history. Housing starts, automobile registrations, department store sales, steel output and nearly all other barometers of more specialized activity are well beyond year-ago levels. Truly, the nation has had a year of vigorous recovery.

Now the economy has passed through the recovery phase and seems about to enter a period of renewed growth. On the basis of the objective evidence there is every reason for optimism. Yet, despite the much more favorable economic climate, I sense that there is at least as much uneasiness about the general situation as there was a year ago.

Our uneasiness focuses on two problems: growth and inflation. Interest in economic growth has been intensified by Russia's announcement of her progress and plans for the future, and by the persistence of unemployment despite the widespread recovery in business activity. The possibility of rising prices attracts attention because of developments such as the Federal budgetary deficit and wage negotiations in important industries.

There are five official or semiofficial investigations into either or both of these problems under way right now.

To some, the coexistence of two such inherently contradictory problems as these is proof of a kind of national hypochondria. This is especially so since concern is being manifested at a time when Gross National Product has grown 8 per cent in the past twelve months and the consumer price level has moved just one-tenth of a percentage point over the same period.

But the problems are real; and on balance, the anxiety is healthy. Time was when it could be said with more than a suspicion of truth that only a catastrophe such as a grave depression or runaway inflation would have caused such widespread concern. I think it may be a measure of our growing economic sophistication rather than a symptom of hypochondria that it no longer requires a dire emergency for us to show concern. This is not to say that I am alarmed about the current or future state of the economy. I am not, but I do share the concern of most of you about growth and inflation.

I have spoken of these problems before. Today I shall not repeat what I have said. Instead I shall analyze them from another point of view. I shall not concentrate on the statistics surrounding growth and inflation. I shall emphasize how, in part, these problems arise from our quest for security.

The search for security is as old as mankind. Like happiness, security probably is never achieved by the individual who pursues it directly. In all probability it is a by-product of seeking something more significant. Surely the citizens of the United States are economically more secure today than their forebears were a couple of centuries ago; yet I am not aware that they actually feel more secure, even economically.

Most of us feel secure when we can earn our living in our accustomed ways. It is understandable that we resist forces that would affect us unfavorably. It is understandable also that we should try to enlist all the support we can to resist such forces. Our drive for security thus puts us on the side of maintaining the status quo of resisting change.

Although such actions are explainable, they are not the way to progress that we also seek. We will not have much progress if we accept the notion that everyone is entitled to a standard of living to which he is accustomed or which he thinks is appropriate for doing the things that he wishes to do in the way that, and at the place where, he wishes to do them.

Progress comes from doing ever more efficiently those things that others want done. Progress would mean change even though our wants remained constant. And, as we know, our wants themselves are changing continually.

Do not misunderstand me. The quest for security has benefited our society in many ways. It has led to changes that have put a "heart" into our otherwise largely impersonal capitalistic system. Some of the harsh consequences of the law of supply and demand have been modified as a result of this quest.

We have developed a system of compensation to mitigate the effects of unemployment, which is rarely the fault of the worker who has lost his job. In the case of cyclical unemployment this program serves both individual and the general welfare. The payments provide the individual with income and his expenditures help arrest the decline in business activity. In the case of technological unemployment, such payments enable society, which reaps the benefits of progress, to bear part of the costs that fall on the individuals who are displaced.

When we view economic development as a whole, however, it is clear that what we need to do goes beyond providing income during periods of temporary unemployment. We need to shorten those periods as much as possible. This can be done by helping workers acquire the skills that are needed to perform the new tasks that technological progress creates. Such training is needed by those just entering the labor force as well as those whom inventions have displaced.

In this connection, I should like to cite part of an editorial that appeared in the May 1, 1959 issue of THE JOURNAL OF COMMERCE. It was occasioned by comments of Commissioner Clague with respect to the growing labor force that is in prospect.

> "THE QUESTION is thus one of technological change. Much of the present unemployment is the result of advances in technology, and the problem of young workers in the mid-1960's pointed out by Commissioner Clague is also the result of the same causes.
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> "Where the approach to unemployment must come then is through adjusting to our changing society. Federal programs aimed at retraining workers so they can take the new jobs that advances in technology are opening up are all to the good. Probably far more important are programs to extend the training of this rising group of young workers so they will be able to fill the new jobs that are opening up. Otherwise the nation may be faced with a severe labor shortage in skilled work categories coupled with substantial unemployment in the lower ranks.
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> "Efforts that are directed at protecting workers' jobs through restoring past conditions may be partially successful for a time, but the basic problems they are meant to deal with will not disappear that easily. The answers must be found in adjusting to technological change rather than in resisting it, and Commissioner Clague points out there will be millions of unemployed young people testifying to the truth of this statement in the mid-1960's if nothing is done about it now."

Individual security cannot be achieved in isolation. It must be related to the total environment. Individual security will become meaningless if we stop growing and if prices keep rising. Unfortunately, we have not always recognized this. Too frequently we have sought personal security on an exclusive, personal basis. We have sought security in our particular job and our particular activity. When the market for our particular product or service has weakened, we have asked the Government to support it.

Government support takes various forms. In agriculture and some other fields it takes the form of purchasing those products that we as individuals do not want at current prices or even paying individuals for not producing them. This procedure contributes to inflation both by keeping prices up and by increasing Governmental expenditures. It also keeps resources in uneconomic activity. Of course, the amounts are included in our Gross National Product. They may prevent GNP from falling for a time or even be responsible for an increase. Some observers, looking only at the totals, may even be impressed with the growth that has been achieved. But is this the kind of growth we want? Surely not! Would not another approach give us more progress -- and security -- in the long run, even though we had less growth of this kind in the short run?

In some fields, government support has taken the form of impeding access to markets. We desire greater opportunities to enter foreign markets but limit the access of foreigners to our own. Here again we slow down adjustments that are necessary if we are to remain competitive and use our resources most efficiently.

As one takes a long view of the needs for material progress, it seems possible that foreign trade may become of increasing importance. Until very recently, as historians measure time, civilizations made little dent in the world's storehouse of resources. People lived mainly from renewable resouces -- crops, trees, wind, water, and muscle power. Nonrenewable resources were used, but hardly as rapidly as new sources were being discovered. Gradually this is changing. We are beginning to use up our resource capital as well as our resource income. Even though we are ingenious in developing substitute materials, it seems likely that advancing industrialization will put increasing pressure on the world's natural resources.

It seems not unlikely that we are developing a long-run tendency for nonrenewable industrial raw materials to rise in value relative to finished products. Our resources of these materials are not inexhaustible. It may well take somewhat more exports of finished goods to buy the same volume of raw materials. This would mean that our productive efficiency must increase more rapidly than heretofore if we are to increase our standard of living at the accustomed rate. Ability to compete internationally is becoming of ever greater importance.

I move next to the realm of monetary policy. How can it contribute to security — to growth without inflation? In this area, as in the others I have described, we must see the individual, not in isolation but as part of of the total picture. Ask an individual what he would need to solve his material problems. His simple answer might well be: "More money." And, of course, he would be right — so long, that is, as he alone had additional money.

Unfortunately, however, this effective answer for any single individual is no answer at all for a whole society. The individual could solve his material problem with more money because it would enable him to take more resources out of the common pool, thereby leaving less for others. All individuals collectively, however, cannot take more out of the pool of resources than they put into that pool — no matter how much money they may have. Society must produce more, not merely have more money, before it can consume and invest more.

I should like to introduce a discussion of the positive role of monetary policy with a quotation from that venerable Cambridge economist, Sir Dennis H. Robertson. Writing in March 1921, he said:

> "Money is after all a fundamentally unimportant subject, in the sense that neither the most revolutionary nor the 'soundest' monetary policy can be expected to provide a remedy for those strains and disharmonies whose roots lie deep in the present structure of industry, and perhaps in the very nature of man himself."

What monetary policy can do is to influence the environment in which economic decisions are made rather than determine the particular decisions themselves. It can provide incentives to spend on consumption and investment when the economy has unused resources that are not idle for structural reasons; and it can provide incentives to save when the economy wishes to consume and invest more than it can produce.

The Federal Reserve System provides these incentives by making money and credit relatively cheap and plentiful to encourage spending and by making it relatively dear and scarce to encourage saving.

Recent developments illustrate the complex forces that limit the achievements of monetary policy. A year ago we met just after the Reserve Banks had reduced their discount rates from 2-1/4 to 1-3/4 per cent. Member banks throughout the country had more than $600 million in excess reserves and were borrowing only slightly more than $100 million from the Reserve Banks. In fact, I remember analyzing the basic principles of borrowing from the Reserve Bank before the Pennsylvania Bankers Association last year. The PBA meeting, as you know, follows your own. I chose the topic a year ago "precisely because few member banks have occasion to borrow at this time" and because, "if experience is any guide, this will not be a permanent state of affairs."

Many dire predictions were being made at that time. There was widespread support for a massive reduction in taxes and for sizable increases in Federal Government expenditures. Subsequent developments show how little we really know about economic prospects. In retrospect it is clear that we were even then passing through the trough of the recession.

Today we have a vigorous, widespread rise in business activity, with total output and income already well above their prerecession peaks; but unemployment has remained sticky and remains relatively high.

These developments, as you probably know, have led to renewed discussions of Federal Reserve policy. As the System observed the vigor and breadth of the expansion in business activity it shifted gradually from the policy of ease that had been appropriate during the recession. Some critics have felt that the policy of ease should have been continued until output was near capacity and unemployment reduced to a "normal" level.

Before I analyze these two views, I should like to clear up a misunderstanding. The misunderstanding is that Federal Reserve officials are less concerned about the unemployed than are their critics. Actually, the two views do not reflect differing degrees of concern over the unemployed. They reflect differences of opinion as to what monetary policy can do about it. Unemployment is concentrated in a few of the heavy durable goods industries, such as automobiles and primary metals, and in mining. The coal regions, for example, have long had a serious unemployment problem because of the declining demand for coal and increasing productivity resulting from mechanization. These pockets of unemployment are largely structural, reflecting the difficulties of certain industries instead of a deficiency of total purchasing power. The fact that personal income is at an all-time record is some evidence that the weak demand for the products of these industries is not caused by a shortage of money. Furthermore, the sharp increase in productivity which has accompanied the rise in business activity has retarded absorption of the unemployed.

An easier money policy is not a remedy for such structural unemployment problems. There is little reason to believe that it would accelerate significantly the reemployment of those now idle. Adoption of an easy money policy would, however, involve the risk of sowing the seeds of an inflationary boom which would end in another recession and more unemployment.

I cite these developments to indicate that monetary policy is only one of many policies that influence our rate of growth. It is unrealistic to expect a free economy to operate continually at full capacity and with uninterrupted growth to ever higher levels of production and employment. Changing wants inevitably result in some temporary unemployment and idle plant capacity while resources are being shifted. Temporary slumps in business activity arising from misjudged market prospects -- too much inventory, excess plant capacity -- are to be expected. Those responsible for monetary policy can strive to minimize the extent and shorten the duration of these temporary interruptions in economic growth; but they cannot eliminate them entirely.

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." Those 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 their foresight and efficiency. This is the framework in which we search for security. We strive not for the security of slaves but for the security of free men.

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