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For Release January 4, 1962

Statement by Karl R. Bopp, President,
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"Foreign Payments and Domestic Growth
The Big Issues of 1962"

Early 1961 saw the bottom of the mildest business recession since World War II. During the rest of the year, business improved steadily. Unemployment stayed disturbingly high, however, and sales to consumers were sluggish until the fourth quarter. At the year's end, consumer spending had strengthened markedly, but too many people still were unemployed.

The business recovery undoubtedly will continue into 1962. But the advance needs to be strong and long, for the country's industries are hardly operating at standard speed; they could efficiently produce considerably more, if the demand developed. The combination of unemployed people and underemployed plants epitomizes the difficult problem the United States economy faces in 1962 — how to build the business recovery of 1961 into an extended period of economic growth.

A key factor in economic growth is how much businesses spend for better equipment and more efficient plants. Like many other aspects of the 1961 recession, the decline in capital expenditures was of short duration. A precipitate

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decline in the first quarter was followed by a fast recovery, so that the seasonally adjusted dip was far less pronounced than in previous postwar business declines. This fact obscures a more significant one, however. Capital expenditures have been sluggish since the great upward thrust in 1956 and 1957. The peak achieved in 1960 was low — lower than in 1957 — and followed a slow rise through 1959. Therefore, even the shallow drop in 1961 reduced expenditures to a level too low to sustain a satisfactory rate of economic growth.

Capital outlays respond to demand. When spending by consumers, businesses, and governments increases, incentives to invest likewise increase, and actual outlays of funds follow along in due course. The materialization of a new surge of capital investment and the strong impetus that it would provide in the latter part of 1962 and in 1963 depends therefore on the course of spending, particularly consumers' spending.

Spending by consumers has faltered in recent years except in one category — services. Sales of durable goods particularly were about the same in 1961 as in 1955; therefore they declined on a per capita basis. Sales of nondurables increased during the same period, but with considerable fluctuation; they actually dipped a little in 1958 and 1960. But consumers' spending for services has increased rapidly and with remarkably small fluctuations. These facts reflect transitions in the nature of consumer demand. There has been a shift away from what used to be the standard items — things like automobiles and appliances — toward the new and different, which often takes the form of a non-thing — a concert or a vacation, for example. This shift of demand explains a good deal of the overcapacity that has built up in manufacturing industries.

There is no question that consumers in total have the incomes and savings for renewed spending. A key question in 1962 will be whether their

purchases of goods will expand sufficiently to spark a capital spending revival.

Intense competition in all lines characterized the business climate in 1961, and another dose of the same is in store for this year. Corporate profits have not grown so fast as have sales or incomes over the past decade; the current rise in profits represents only the swing up from the recession. Companies have no illusions about the necessity to compete; this produces pressure to cut costs everywhere, and the effect is to channel investment funds into modernization of facilities. Only about one-third of industry's investment now goes into added capacity.

It is well that capital investment is going primarily into cost-cutting new equipment, for we face strong international competition. The United States still maintains its traditional export surplus, but in recent years this surplus has not been sufficient to offset the total of our Government expenditures and private investment abroad. Foreign countries have modernized their industrial plants faster than we, so that competition from low-cost industries overseas threatens to reduce the export surplus which even now does not offset the outflows of United States dollars spent abroad by the military, in foreign aid, and by individuals and corporations investing overseas. Obviously, to maintain and if possible increase this surplus is a matter of national urgency. One way to do this is by lowering costs in our export industries, and plant modernization does lower costs.

Confidence in the dollar must be maintained to avoid an international payments crisis. In the long run, confidence is maintained by competing effectively in international trade. In the short run, it may be undermined by sudden and substantial flows of funds abroad. Monetary and fiscal policies therefore must take into consideration the need for confidence in the dollar abroad as

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well as the sustained growth of economic activity at home.

The outlook for 1962 is for continued improvement in business activity, accompanied by intense competition both at home and abroad. To be successful in the international competition, we must do what is necessary also for success at home. We must cut costs, produce efficiently, employ our people and our plants. This country in the past grew and achieved renown as a great, efficient, mass producer, formidable in all varieties of economic competition. This reputation we must maintain.

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