

FOR RELEASE ON DELIVERY  
(Approximately 1:30 p.m., DST,  
Friday, July 27, 1962.)

THE FUTURE OF THE AMERICAN ECONOMY

By

Karl R. Bopp, President  
Federal Reserve Bank of Philadelphia

First Lehigh Valley Workshop  
on Economic Education  
University Center, Lehigh University  
Bethlehem, Pennsylvania  
12:30 p.m., Friday, July 27, 1962

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Anyone who has observed the development of the United States economy during the past few decades must have become impatient periodically -- as during the past few months -- with its rate of progress. I have shared such impatience. As one who has participated in some of the decisions with respect to monetary policy, I also have had feelings of uncertainty from time to time as to what should in fact be done, feelings of frustration on occasion when I thought I knew but could not persuade, and feelings of disappointment when actions I favored did not produce anticipated results.

In these days, when so many are calling attention to our imperfections, it may be appropriate to remind ourselves of our incredible and unpredicted success.

A century ago a number of observers were impressed by what had been achieved but were skeptical of the future. In 1844, Henry L. Ellsworth, Commissioner of Patents, concluded: "The advancement of the arts from year to year taxes our credulity and seems to presage the arrival of that period when human improvement must end."

In 1848, Marx and Engels wrote: "The bourgeoisie ... has been the first to show what man's activity can bring about. It has accomplished wonders far surpassing the Egyptian pyramids, Roman aqueducts, and Gothic cathedrals." Looking ahead, however, they predicted: "The modern laborer ... instead of rising with the progress of industry, sinks deeper and deeper below the conditions of existence of his own class. He becomes a pauper, and pauperism

develops more rapidly than population and wealth.... What the bourgeoisie therefore produces, above all, are its own gravediggers."

To be sure Marx and Engels were not talking about the United States; but they were talking about societies of "free competition, accompanied by a social and political constitution adapted to it."

We need only look about us to see that the dire predictions of Ellsworth as well as those of Marx and Engels have not materialized.

We have in the United States filled and exploited a huge continent in a very short period of time. We have made giant strides in containing and channeling the forces of nature. We have provided a high degree of safety and security for the inhabitants. We have created a dynamic and progressive economic machine through which we have reaped the benefits of rapid economic growth.

In the United States, gross national product (in real terms corrected for price changes) has grown over the long run at a rate of over 3 1/2 per cent a year (1839-1959). On a per capita basis, gross national product has increased at a rate of about 1.6 per cent a year; consumption of goods and services per consumer has grown at about the same rate (1879-1959). "No economy," a recent Government study concluded, "can match the record of growth of the American economy over the last 120 years."

If we can measure our standard of living by gross national product or consumption per person, we can conclude that as a result of economic growth our standard of living has been doubling about every 40 to 44 years. This means that a large majority of people can always look back on their childhood and congratulate themselves on exceeding the economic achievements of their parents.

Furthermore, the enormous expansion in output has not resulted in -- or been accompanied by -- pauperism developing more rapidly than population

and wealth. Available data are not perfect and do not go back very far, but the tendency toward equality is apparent. In 1929, the lowest two-fifths of families receiving income earned only about 13 per cent of total income; in recent years they have earned about 16 per cent. On the other hand, the income received by the top fifth of all income receivers has been falling. They earned about 54 per cent of all income in 1929; in recent years, their share has fallen to about 45 per cent.

As a result of both economic growth and a smaller income dispersion, the number of families in what might be called the "middle-income bracket" has increased tremendously. Using the 1960 dollar as the measure, there were in 1929 only about 9 million families earning between \$4,000 and \$10,000 a year; this was less than one-quarter of the total number of families. In 1960, there were 28 million families in this same middle-income bracket -- about one-half of the total number of families.

These figures substantiate the impression one gets when looking at the mass production and mass sale of those luxurious necessities the economist has drably labeled "consumer durables" -- automobiles, television sets, home freezers, automatic washers and driers, and many others. There are large numbers of people who are living very well today.

This is not to assert that poverty has been eradicated. Poverty still exists in both our rural and urban communities. There still is much to be done, but the fact remains that much already has been done.

Many forces, spiritual and material, fundamental and ephemeral, have contributed to our development. I shall mention only a few of them that are basic to an understanding of the functioning of our economy.

To begin with, we have basic laws -- common, statutory, and constitutional -- that define the scope of business and government and their respective activities.

The laws of contract, property, bankruptcy, and legal recognition of the freedom of the individual to compete and, within wide limits, to carry on his business as he sees fit, provide us a framework for business activity. Our written constitutions help mark out the role of governments and define their relations to business. At the same time, they recognize and protect the interests of society.

We have organized ourselves into both private and public institutions -- into businesses, labor unions, and governments, and a multitude of other organizations. We engage in practices facilitated by our laws and institutions. We exchange goods for money in markets -- we have a market economy. We borrow from and lend to one another -- we have a credit economy. We bargain with one another over prices and wages -- we have a private bargaining economy.

Our laws, institutions, and patterns of activity have been built on basic, catalytic attitudes, perhaps hardly considered any more. "Hard work never hurt anyone; money isn't everything, but it is better to be rich than poor; opportunity knocks at least once on everyone's door; I may lose my shirt, but I'll take a chance; the world will beat a path to the door of the man who builds a better mouse trap." These attitudes about work, money, risk-taking, and the applications of science -- the general optimism that tells us that many people can win in the economic game of chance -- we frequently take for granted. Their significance for economic progress can be appreciated better when we look for them in the underdeveloped countries of the world and do not find them.

Throughout our history, laws, institutions, and practices have changed, but the fundamental character of the economy has not. Despite the growth of government in recent decades, approximately 80 per cent of our purchasing each year still is done by private persons on the basis of their own decisions.

Private spending and private decision-making are the chief characteristics of our economy.

We have frequently and purposely altered our economy to meet problems we have had to face. And yet we have been able to maintain its fundamental flavor. Those advocates who for years told us that we must choose between a completely laissez-faire economy and a completely planned economy have been proved wrong by events. We have adapted and fashioned a free and flexible economy. This fact alone should be listed among our major accomplishments.

The technical staff of the Joint Economic Committee of the Congress recently has described the human forces that have contributed to our material performance:

At the top of any list of factors contributing to the growth [of the U.S. economy] four elements must be mentioned. The first is the opportunity for individuals to exercise their initiative, to organize new enterprises, to effect changes in old established ways. Second, many Americans possess the enterprising, risk-taking attitudes which are the essential driving force of a capitalistic system. Third, the American people have a healthy attitude toward work which has resulted in a high and rising productivity for the labor force. Fourth, a stable political environment with private property secure from Government seizure without due process of law has given individual initiative a setting in which it can function successfully. These factors cannot be expressed in numbers yet they are the foundations of American economic growth.

As I discussed this talk with my colleague, Dr. Bernard Shull, he reminded me of Macaulay's History of England. The History was published in that politically turbulent year of 1848, which also saw the publication of the Communist Manifesto from which I have already quoted.

Here are the relevant sentences:

It is in some sense unreasonable and ungrateful in us to be constantly discontented with a situation that is constantly improving. But, in truth, there is constant improvement precisely because there is constant discontent. If we were perfectly satisfied with the present, we would cease to contrive, to labor, and to save with a view to the future.

I need only remind you that a century ago the United States was engaged in a great Civil War to demonstrate that our progress has not been inevitable. The century has been filled with recalcitrant problems. But we have, somehow, come up with workable solutions for them. Our experience should teach us to face the future with neither complacency nor hopelessness but with intelligent courage.

As we survey our economy today, the strategic significance of World War II remains apparent. The War ended in 1945, but it cast a long shadow. During the War the Government had almost insatiable demands. The goods we produced, however, did not satisfy the ordinary demands of the public except, of course, their demands for defense against external aggression. Other demands, of a more common variety, were deferred and accumulated. When the War was over these other demands materialized in the market place.

We have had a postwar boom in the United States; automobiles, houses, television sets, and many other items have been part of it. These huge demands have facilitated economic expansion, and at times over-expansion and inflation.

In 1944, Wesley Claire Mitchell, the American economist who was most closely associated with business cycle research, made an extremely discerning forecast. He noted:

Postwar demands for goods are not likely to match the insatiable demands of war; but they should suffice to keep the American people fairly busy....

During the good times, Americans will congratulate themselves upon the efficiency of an economic system that passed the test of war with flying colors, reconverted itself to peaceful conditions, promptly caught up war shortages at home and helped foreign countries to get back on their feet. This industrial accomplishment will show us at our best. The test that will be hard to pass will come after the extraordinary postwar demands have been satisfied....

It appears that the extraordinary postwar demands, particularly for consumer durables, to a large extent have been satisfied. We still sell a great many cars each year; we build a great many houses; and we produce in large quantities all those other durable items that have in recent years given special flavor to our way of life. But the tide of expenditures for consumer durables, once driven by the deferred desires of war, has, I think, ebbed. On the other hand, the demand for services -- medical care, education, services associated with vacations, and others -- has become very strong.

From 1945 to 1950, consumer expenditures for durables\* increased from an annual rate of \$8 billion to about \$30 billion -- an increase of over \$22 billion. By way of contrast, the increase from 1955 to 1960 was less than \$5 billion. Expenditures on services also increased significantly after the war -- between 1945 and 1950 -- by almost \$25 billion. However, service expenditures have continued to increase at a very rapid rate; between 1955 and 1960, they increased by almost \$40 billion. In 1946, consumers spent about 27 cents out of every dollar of income for services; in 1960, they spent about 38 cents out of every dollar.

If people effectively demand more services, these demands will be felt in the labor market. But perhaps the growth of new, cost-reducing technology has been at least as important in influencing the demand for labor. Since 1953, there has been a declining percentage of the labor force working in manufacturing and a rising percentage employed in services. Moreover, there has been a declining percentage of manufacturing workers employed in production. Many have changed the color of their collars from blue to white.

While we have had fundamental shifts in consumer demand, there also have been significant changes on the supply side, and even more significant changes seem to be in the offing. In the 1950's, the labor force increased at a rate of

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\*Not including housing.



about 750,000 people per year. This growth, however, reflected the relatively low birth rates of the 1930's. In the 1960's, experts expect the labor force to increase at an annual rate of about 1 1/2 million workers a year -- about double the 1950 rate. This prediction is somewhat safer than most; these potential workers have been born already and they are irresistibly moving toward participation in the work force.

In addition, many experts expect a speed-up in labor productivity in the coming years. Output per manhour has increased fairly rapidly in the United States. But in recent years industry and government have stepped up their research and development programs. We now spend about 2 1/2 times as much for this as we did in 1953. There already have been remarkable increases in labor productivity in some industries. It would seem that we can expect continued increases in the years to come.

To the individual businessman, research and development represent a way of increasing profits. The concern about profits has not been idle. Profits, after taxes, for all corporations in 1960 were about the same as they were in 1950. Profits have fluctuated considerably in the interim, especially in manufacturing, but they have not advanced. With sales increasing and national incomes rising, this means that profit rates (on sales) and the profit share of total income have been falling. Profits made up almost 15 per cent of the national income in 1950; they accounted for less than 12 per cent in 1960.

The growth of mass production and distribution, stimulated by the desire for profits, has enabled us to produce a good deal at relatively low costs. But it also has placed a great deal of economic power in the hands of private persons; these persons do not have a primary social responsibility. While industrial

concentration does not seem to be increasing, in many important industries it has reached significant levels. Collective bargaining between powerful unions and powerful companies in industries that are of central importance to our economy clearly has an impact on prices. Perhaps it also has an impact on production and economic stability. When agreements are not reached and strikes result, the entire economy may be affected.

We then have left the postwar period. The boom associated with the end of the war -- and perhaps perpetuated by the Korean police action -- seems to be over. Consumers have moderated their demands for hard goods and increased their demands for services. Moreover, a new, cost-saving technology is being developed. Both have influenced the demand for labor. The supply of labor has been growing, as has labor productivity. We can expect even more rapid increases in the labor force over the next ten years and this probably will be true of productivity as well. Despite a period of general prosperity, profits have been squeezed over the past ten years. Finally, we have over the past ten years begun to appreciate the aggregate economic significance of collective bargaining in strategic industries.

The shifting demands of consumers and our increasingly productive labor force have left us with a serious unemployment problem. A growing number of areas have been designated as depressed; long-term unemployment has risen; young workers without skills and older workers with antiquated skills have multiplied.

Not only has unemployment among workers grown but so also has unemployment of our capital stock. Shifting and limited demands have resulted in an increase in the slack or excess capacity with which our plant and equipment have been operating. During the first half of 1961, excess capacity in the production of major materials, such as iron and steel, aluminum, copper, and others, was about

20 per cent. There is little likelihood that it will soon be reduced to the minimum levels (3 per cent to 10 per cent) of the early 1950's.

While unemployment and excess capacity have risen, so have our price levels. The postwar boom has had its impact on the value of the dollar. Consumer prices have increased by about two-thirds since 1945. Even today, with more moderate demands, the consumer price level appears to have an upward bias. The market basket which consumers purchase contains items whose prices typically are either rising with increasing demand or sticky when demand drops off.

The future suggests an intensification of these problems unless we work actively to solve them. The anticipated speed-up in labor force growth and productivity should be welcome as an increase in our capacity to satisfy material wants. But the current level of excess capacity and the squeeze on profits make it something of a mixed blessing. Adjustments of wages, prices, and the location of workers and industry will be necessary. But in an economy where private persons exercise a high degree of economic power and prices of goods, services, and resources are relatively inflexible, adjustments may prove difficult.

In a normal period we might view the developing economic situation with greater equanimity. But as you well know, we cannot do this in the current world situation. We find ourselves, today, in a deadly economic competition with a dedicated rival. We have been confronted with a challenge that seems to turn each economic problem into a near crisis. The pressures from abroad, as well as our own sense of economy and charity, compel us to take active measures to achieve our objectives as quickly as possible.

Nevertheless, our sense of urgency must be tempered by our intelligence.

The problems we face are not only global but complex and detailed. Solutions that appear simple could prove deceptive.

For example, we know that employment and gross national product are related. We also know that unemployment has remained between 5 and 6 per cent of the labor force in 1962 -- and was higher in 1961. It is tempting to conclude that all we need do is increase spending -- by the Government, if necessary -- by some 6 per cent and unemployment would disappear.

Now there is nothing wrong with that arithmetic. Unfortunately, the conclusion is not relevant to the real world because it is based on the assumption that members of the labor force are interchangeable.

The falsity of that assumption becomes apparent when one examines some particulars of employment, unemployment, and vacancies. We find that although unemployment has remained very high since early this year, employment has been rising, more space is being devoted to "help wanted" ads, and employment bureaus across the country report that they are unable to fill numerous requests.

Surely this suggests that we should look not only at the aggregate number but also at the characteristics of about 4 million persons who are looking for jobs. In June, partly due to school closings, well over 1 million were teenagers. But school closings do not explain the persistently high teenage unemployment rate.

Of the over 4 million unemployed, about 1 million had been out of work for 15 weeks or more. There has been some improvement in this figure over the last year, but it is still much too high for comfort.

A disproportionate share of the long-term unemployed are men 45 years of age and over. Average unemployment rates among older people have, for the

most part, compared favorably with those of other age groups in the population, especially under the protection of widespread seniority systems. But the older person is at a distinct disadvantage when he loses his job. In June (1962) about 49 per cent of all the older men unemployed had been out of work 15 weeks or more.

Unskilled and semi-skilled workers also have had a difficult time in finding employment, especially those last employed in the manufacture of durable goods and persons with no previous work experience.

Seymour Wolfbein has described the picture that has developed as one of a "nation ... experiencing a revolutionary change in its occupational and industrial structure." Much of the unemployment, especially the long-term unemployment, is of a structural variety, developing out of changing consumer preferences, new products, and new technology.

There are growing employment opportunities for skilled workers. In the course of economic growth, many workers have developed the skills demanded and many have moved to areas where opportunities exist. We have had a rising level of employment, but we also have a large number of youngsters without skills and older workers with obsolete skills. These have swelled our unemployment totals.

The classical economic answer to unemployment of this sort is that it could not, over any period of time, be very significant. Aggregate human wants are insatiable. If changing demands or changing technology destroyed some jobs, others would arise; there would be no permanent reduction in jobs.

Our own history testifies to the essential validity of this thesis. Our population has grown rapidly; the patent office has remained busy, despite Ellsworth's prediction; but there has been no secular trend toward unemployment.

We have observed the operation of some of the forces created by changing technology and changing demand and supply in the Third Federal Reserve District. These forces tend to create a new balance. We have in our District a number of

areas with very high levels of unemployment -- Scranton, Wilkes-Barre, Hazleton, Altoona, Johnstown, and Pottsville, to name those in Pennsylvania. During the 1950's, each one of these labor market areas lost population. Other areas, with better employment opportunities, such as Philadelphia, Reading, Harrisburg, and Wilmington, gained population over the same period. Clearly, labor has tended to shift to more prosperous areas over the past decade.

In addition, local leadership has had varying success in attracting new industries to locate and grow in the areas where there has been substantial unemployment. Capital, as well as labor, has been attracted and repelled by wages and costs, as our theory tells us it should be.

Unfortunately, these shifts of men and machines have not been rapid enough to bring about the improvement we desire, though the situation would have been much worse had they not taken place. Perhaps if prices and wages were not so sticky as they are, more substantial improvement might have been observed. But even very flexible prices and wages would not eliminate the hardships and difficulties of adjusting to a changing economic world. Even under the best conditions, movement toward the theoretical "long run" -- in which all adjustments have been made -- is a very long, drawn-out, and painful process.

The pure economics of the situation calls for greater mobility. But mobility is merely an abstraction that is useful occasionally in constructing models of development. In human terms, spatial mobility means such things as selling, in a depressed market, an old home acquired after decades of saving in order to secure the down payment on a house in an explosive new subdivision. It means leaving friends and relatives, who have given meaning to life, with the knowledge that they will feel you are abandoning them for selfish purposes. It means transplanting mature trees into new soil and environment.

Obviously, younger people who have short roots are more mobile than

older people. And, of course, it is the young people who have left these communities. Indeed, I have a hunch that some of the "bright" young people, who are leaving the so-called depressed areas to seek their fortunes in the explosive new areas, may find a few decades hence that they either did not read, or reading, did not comprehend or apply to themselves the import of Conwell's "Acres of Diamonds." Fortunately, this is one of those hunches that can never be proved correct or incorrect. Still, it would not surprise me if some of the eager beavers of today look back tomorrow and come to the same conclusion.

As one considers the human aspects of spatial mobility, it is clear that more than economics is involved. As he allows for these other factors, however, he should be fully aware that some of the resources used to mitigate the hardships involved will not be available for economic growth.

Another reason for immobility is that many of the unemployed cannot qualify for the jobs that are available. As already mentioned, many of the unemployed seem to lack the skills demanded in our modern, sophisticated labor market. One solution that has been offered is additional education, re-education, or retraining. As one who has devoted a significant fraction of his life to teaching, I have a great deal of sympathy with this approach. I think it can accomplish a lot.

Some people, however, seem to think of education as a wonder drug. A wonder drug it may be, but not a panacea. Thomas Jefferson believed it was worth-while to educate, at public expense, about twenty young people every year in the State of Virginia in subjects more advanced than reading, writing, and arithmetic. Today we take it for granted that everyone should have an opportunity for the greatest degree of formal education that he is capable of attaining. And though much remains to be done, we already have done a great deal to implement this judgment. But we should not confuse opportunity with ability and desire. Those in this audience intimately connected with education

might reflect on their own frequently frustrating attempts to educate. I am even more disturbed by scattered reports that I have heard of the unwillingness of some unemployed to take advantage of opportunities for re-education and retraining.

The inroads, or threatened inroads, of automation on employment have led some observers to advocate shorter workweeks and to look forward to a society where man can produce more and more with less and less effort. Now maximum output with a minimum effort should be considered an objective of any economy.

It is evident, however, that if we could produce a given output with a 30-hour week, we could produce a larger output with a 40-hour week if we employ the same number of people. When work hours were very long and the standard of living of workers very low, a reduction of hours improved living standards and increased production. But it seems that most workers already have progressed beyond that stage to a new one where shorter work hours simply tend to reduce output. Shorter workweeks are not the answer to unemployment in an economy that wishes to grow rapidly.

It seems to me there is a personal as well as an economic problem in still shorter workweeks. Additional leisure is something everyone yearns for. But once obtained it does not always fulfill its promise. Idleness does not become satisfying merely by calling it leisure. Overwork, day in and day out, can be deadly and grinding to the human spirit; excess leisure, however, also can be deadly by denying us the everyday achievements of a normal working life and thereby sapping our self-respect. This thought may have some international implications. To the extent that the communists extol work while we extol leisure, I think we may present an extremely weak appeal to the rest of the world and weaken our self-confidence to boot.

The natural response of labor and capital to wages and costs of production tends, over time, to alleviate the unemployment problem. Relocation,



additional education, and retraining programs will undoubtedly help many workers find new jobs. These programs, obviously, operate most effectively in a growing economy. Some observers have argued, therefore, that the way to promote growth and alleviate unemployment at the same time is through increased Government spending. There are circumstances in which this approach is appropriate, but it is not a panacea.

First of all, increases in spending need not necessarily increase the demand for currently unemployed workers and unutilized plant capacity; they could increase the demand for products which are currently in short supply. In our economy, where prices and wages are sticky in a downward but not an upward direction, the result could be rapidly rising prices with little improvement in employment. Some critics have not shied away from this possibility, and have argued that moderately rising prices are conducive to rapid economic growth.

Some of them appeal to history in support of their position, citing periods such as that from the turn of the century to World War I, when we had both rising prices and growth. Now I happen to have spent a considerable number of man-years trying to squeeze uniformities or principles from historical evidence in the specialized field of central banking. I have found such study rewarding, but I must confess that I also have found it slithery and full of pitfalls.

In the matter at hand, I find that at different times rapid economic growth has been associated not only with rising prices, but also with falling prices, as during the latter part of the 19th Century, and with relatively stable prices, as during the 1920's. It seems to me difficult to demonstrate historically that rising prices are a necessary condition for rapid growth.

Past periods of secular change in the price level had two characteristics that are relevant to our analysis. The first is that there was no governmental policy with respect to the long-run future of the price level. Long-term changes

in the same direction did indeed influence public policy as well as lead to popular feeling that the movement should be reversed. But these, of course, are different matters. The second feature is that there was no unanimity of view as to the direction of the price level in the future. Particular individuals, of course, had strong views, based on a variety of analyses, of which those based on studies as to the adequacy or inadequacy of gold, come most readily to memory. But none of these individual views received anything like universal acceptance -- in part because there was always the possibility that Government would intervene.

There is reason to question whether historical evidence, based on these characteristics, is relevant to an economy in which inflation would be tolerated as a matter of policy.

While no one, to my knowledge, has advocated rapid inflation, this could be the ultimate result once people begin to realize that prices are going to move up year after year. For then it becomes advantageous to buy now rather than a year from now, and to own goods rather than money. The expectation of rising prices would tend to be fulfilled by increasing the demand for goods and the speed with which money turns over.

Even though such a development is not inevitable, surely it is possible and one must be prepared to deal with it should it occur. If it is argued that the rate of inflation is to be kept in check, a decision will have to be made as to the maximum rate that would be allowed. I am not aware of any acceptable method of reaching such a decision. I am aware, of course, of a gradual but persistent decrease in the rate that some have considered permissible or tolerable.

Should the maximum rate be exceeded, a decision would have to be

reached as to how it should be checked. In all probability such checking would require imposition of the same kind of restraints that would be needed to maintain a stable price level. Indeed, they probably would have to be applied more severely. It would then become apparent that the added growth had been of the "hothouse" rather than of the sustainable variety.

The problems of unemployment and inflation are related. We must solve them together in the interest of our domestic economy. But we must solve them also because of our position in the world.

As you all know, the so-called "dollar gap" that was so heatedly discussed until recent years has turned out to be another of those postwar developments that has disappeared with the postwar period.

Early in that period, we were quite willing to see -- even welcomed -- deficits in our balance of payments as part of the process of developing and restoring foreign countries. Beginning in 1957, however, our payments deficit began to exceed \$3 billion a year. This is too large an amount to be sustained year after year.

There is no simple, once and for all, solution to our balance of payments problem. Intensive efforts along many lines will be needed. Among these are: persuading those we have helped that it is in their interest as well as ours to bear a larger share of the burden of mutual defense; persuading those whose international liquidity has risen greatly to reduce their barriers against United States imports, reviewing our own expenditures abroad; providing aid, such as insurance guarantees, for our exporters; and so on.

It is imperative that the remedies we seek for our excess unemployment and our balance-of-payments deficit be consistent with the kind of world we and our friends and allies have been trying to create ever since the end of the war. We want a world with a maximum degree of freedom for international trade and

international investment. Quoting Chairman Martin:

One of the worst things that could happen to compound our balance of payments difficulties would be to adopt a restrictive trade and investment policy. It would wipe out the hard-won gains of years of effort to promote freer international exchange.

A free flow of international trade has many benefits. We all know the powerful impact foreign competition has had in inducing our domestic automobile manufacturers to produce the kinds of products consumers evidently desire. Their response demonstrates what our ingenuity can achieve when "the chips are down." Furthermore, there is a cliché in the lexicon of American politics: "The tariff is the mother of trusts." I think our recent experience has shown that foreign competition is both a healthy stimulant to American business and a powerful silent partner of the Anti-Trust Division of our Department of Justice.

Presumed remedies, advocated by some, could be dangerous. Direct controls, including higher tariffs, quotas, and exchange controls -- all designed to promote American exports and discourage imports -- would move us away from free, multilateral trade and the increased welfare associated with large volumes of trade. And, of course, our trading partners could retaliate. Because we now have a large export surplus, we have more to lose than to gain in such a contest.

Since the assigned title for this lecture is "The Future of the American Economy," I should indicate what seems to me to be the major problem confronting businessmen. In a nutshell, it is how to remain competitive in the national and international markets and yet earn profits sufficient to attract the capital that will be needed to grow. In a sense, of course, this is always the major problem of business. But developments over the past decade suggest that it has taken on greater urgency. Profits are now in a cyclical rise; but, as I have indicated, they were no greater in 1960 than a decade before and have not kept pace with output. This is important for the Government also. After all, few individuals

have marginal tax rates as high as the 52 per cent corporate rate; and dividends are also subject to tax.

I hope you did not feel, as I recounted our incredible growth during the past century, that I am a Pollyanna who feels that everything will turn out all right. I hope also you did not feel, as I rejected some simple, easy solutions for our problems, that I am a cynic who has a difficulty for every solution. My view rather is that once expressed by Walter Bagehot:

I am by no means an alarmist. I believe that our system, though curious and peculiar, may be worked safely; but if we wish so to work it, we must study it. We must not think we have an easy task when we have a difficult task....

Reference to global models, based on the assumption that everything will, somehow, come out all right if only aggregate demand is sufficient, is simply an inadequate guide to public policy. For example, everyone is interested in growth. Everyone recognizes that innovation stimulates growth. Everyone appreciates that innovation creates hardships for those whose skills become obsolete. Everyone agrees that these burdens should be alleviated. Alleviation of the burdens, however, impedes growth.

This is but one illustration of the difficult tasks that lie ahead. Yet, as we recall our achievements, despite great obstacles, we have reason to be confident that we shall continue to make progress toward achieving the goals expressed in the Employment Act of 1946:

... to promote maximum employment, production, and purchasing power ... in a manner calculated to foster and promote free competitive enterprise and the general welfare.

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