ROUTES TO GROWTH

Speech by Darryl R. Francis, President
Federal Reserve Bank of St. Louis
Before the Midwest Agribusiness Institute
Sheraton-Jefferson Hotel, St. Louis, Missouri
September 5, 1968

In this discussion I shall go beyond the specific area of agribusiness and review some aspects of the overall problem of economic growth.

There seems to be no simple solution to the orderly accomplishment of economic growth. Our efforts to enhance the welfare of other less developed nations have met with only moderate success in most cases. In some instances we admit almost total failure despite the expensive programs undertaken. Nevertheless, we are reasonably sure of some factors which are associated with economic growth. Those which are very general and of little application to specific conditions in Missouri I shall briefly enumerate and dwell more completely with growth factors that fall directly within the scope of your general discussion and which are not so well recognized by the general public.

Generally recognized conditions for growth include such well-known factors as (1) the maintenance of law and order, (2) the assurance of property rights to entrepreneurs and prospective entrepreneurs,- (3) the provision of incentive for enterprise, and (4) health and energy of the people. These growth requirements are so obvious that no further comment is necessary.

There are many less obvious factors contributing to growth, and education and training head the list. I refer to education in its broadest sense including education in our school systems, on-the-job and apprentice training, training through adult education programs, general education of the public through the news media, demonstrations of more efficient practices, and the dissemination of printed information.

It is the capacities of the human agent of production that explain the rapid recovery of Germany and Japan following World War II. A large portion of the physical capital in each nation had been destroyed. In fact, they had little more left than some of the so-called under-developed nations. Yet, within a decade of the close of the war, both nations were quite prosperous. The factor which war could not destroy and which permitted rapid recovery was the training and "know-how" of the people of Japan and Germany. With some aid toward replenishing their physical capital stock, both were shortly back in production and within a few years were exceeding pre-war levels of output.

Our own production revolution in agriculture can be largely explained by new technology rather than through new capital inputs. Farm employment in the nation declined, from 10 million workers in 1930 to less than 4 million in 1967. The physical volume of farm production, however, increased sharply during this period. In fact, farm output almost doubled, rising from 60 per cent of the 1957-59 base in 1930 to 118 per cent last year. The physical volume of farm output per worker rose fivefold during the period. Some new capital was added to agriculture. Acres in farms rose 7 per cent. The number of livestock on farms rose about 75 per cent and the number of tractors tripled. The gains from new capital, however, were less than the gains in farm output per worker. The worker productivity gains can be attributed largely to technical training, which is the result of research both on and off the farm.

It is in the area of manpower training for the nation as a whole that I believe we have been least successful. We have been especially lax in the training of inner city youth. Our early school courses are designed primarily to prepare students for further education. The pattern leads on through college and ultimately to graduate school. Those who don't fit into the pattern, and especially those who do not finish high school, are known as "drop-outs." Unfortunately, we know very little about our "drop-out" population except for the fact that it is quite large in the inner core of our large cities. With this small amount of knowledge, or lack of knowledge, however, we have organized major drives to prevent drop-outs and get the drop-outs back in school. We have deemed it sufficient just to get the drop-outs back on the track from which they have jumped and eventually get a diploma into their hands on graduation day.

Few have considered the possibility that drop-outs were not interested in a standard high school education, and perhaps many did not have the capacity to complete the regular curriculum in the first instance. I want to emphasize the fact that we are not all equally endowed for educational achievement. Thus, instead of getting drop-outs back on the track, I suggest greater use of schools that do not necessarily point to four years and a diploma, but point primarily to preparation for a job as mechanic, plumber, carpenter, electrician, office machine operator, or any other job in which ordinary literacy plus the specific job skills will meet the essential job requirements.

I recognize the possibility that some compulsion may be necessary to get the job of training in our inner cities completed, because many do not currently have the necessary incentive. Compulsory education, however, is not an unknown thing in the United States. In fact, that is the way universal public education was originally established in most countries. I would even go so far as to suggest that students be required to continue their training until a job is found for their services. It is also possible to use such schools to re-train older unemployed workers on a massive scale. The training program will probably work much better if success in training is linked to any unemployment compensation availability to the student. This massive training program would not only improve the technical skills of our labor force, but would in all probability reduce crime and the cost of crime prevention and control measures.

It is difficult to quantify the gains to national welfare resulting from education and training. While we have much data on the gains in agriculture, other segments of the economy have likewise moved forward. The gains per worker in the nonfarm sector, plus the output from new workers released from the farm sector, have greatly increased total output per worker for all sectors.

Because agriculture employs such a small portion of the labor force, the rate of total growth resulting from gains there will be less in future decades. The nation's farms currently employ only about 5 per cent of all workers. Further reductions in this area will thus account for relatively small gains in the other 95 per cent of the labor force. Thus we may be approaching the end of our major growth push resulting from the revolution in farming. On the other hand, we are probably only beginning a revolution in the nonfarm sector. We already have the urban "know-how" just as we did in agriculture in the 1920's and early 1930's. Now our problem is to organize producers and firms and to train urban people so as to put the "know-how" into practice. Now the job lies with the educators, the motivators, and the market. In other words, we need the same type of job undertaken in the nonfarm sector that was performed in the farm sector during the past three decades.

The gains from a fully productive labor force are not only measured in dollars of increased product but in reduced welfare rolls - an important end product. Each person removed from the welfare rolls into a productive job means lower transfer payments by the government and lower taxes to the working force.

The vision and willingness to let market forces work in the allocation of resources as it did in agriculture is a prerequisite for maximum growth. For example, agriculture would not have made its vast contribution to economic welfare had we not found employment in the nonfarm sector for the released workers. It is possible that we may have similar releases in offices, in transportation, or in retailing during the next few decades. If we can send tons of explosives around the world in unmanned vehicles, I see no reason why we cannot find low-cost means of transporting consumer goods between domestic cities with greatly reduced human effort. If benefits are to be gained, however, we must let market forces adjust our labor force and other resources. This brings me to the next factor for growth, namely, willingness to permit change.

To obtain maximum gains from new technology and from job training, we should keep to a minimum all obstacles to resource adjustments. Some of the obstacles internationally are readily apparent. For example, the farm protectionist policies of Western Europe which limit imports of our farm products in order not to disturb their inefficient farming operations are readily observable. Our local and national obstacles are less noticeable, yet no less real. Monopolistic practices of businesses and professions which limit entry can be just as brutal as international trade barriers. Trade union practices which discourage apprenticeship training through illegal racial practices and unduly difficult or lengthy training periods are equally inefficient. Such practices limit numbers employed to levels below those warranted by supply and demand conditions. These practices are obstacles to growth. I suggest that a major portion of all apprenticeship training be under the supervision of public school officials so that freedom of entry is assured and all prospective workers, regardless of race or other characteristics, can get an equal chance.

Some of our obstacles to a more workable market are even imbedded in the legal framework of state and national governments. Included in this category are obstacles to the free movement of goods and capital at market rates. Minimum wage laws which set wages above marginal returns for some workers contribute to permanent unemployment. I suggest that it is better to have people working at lower than current minimum ceilings than to have a large number unemployed because they cannot earn the legal minimum.

Nonsensical health regulations often hamper the free movement of dairy products and other foods from low-cost to high-cost areas. Excessive interest rate restrictions have, in some instances, hindered normal flows of capital and even now limit the sale of certain government securities.

My last condition or route to maximum growth is stability of values. Although not more applicable to Missouri than to any other state, a stable price level is important to all. I don't have to dwell on the damage caused by recessions and depressions. Most of us know about the lost effort caused by unemployment and idle resources in the 1930's. Fortunately, we have had a relatively small amount of such loss since World War II. Nevertheless, the possibility of such loss should be constantly guarded against. It is to the danger and loss due to price inflation that I want to direct most of my remaining remarks. This is an area not well understood by the public and one in which the "experts" often disagree. Yet excesses here may be just as damaging to growth as recessions and depressions. As an approach to the problem, I might ask the question, "What would you do with your savings if you knew that we would have a price increase of 15 - 20 per cent next year?" (about the rate in Brazil last year). I think that you would search for some opportunity to maintain the purchasing power of your savings. You would not necessarily be interested in annual dividend payments or current interest returns. You would be much more interested in maintaining the purchasing power of your original stock of money. You would thus tend to bypass our savings institutions such as banks and savings and loan associations and place your funds in areas where capital gains are more likely to be achieved. This is one of the problems of inflation. The usual sources of funds tend to dry up, and we move back to inefficient modes of saving and investing. Yet savings and efficient savings institutions are important determinants to growth in some industries such as home building. Thus, growth is hampered when savings institutions fail to function properly.

We all know of the damages to welfare from price inflation. Such damages include loss of real income to all fixed income participants such as pensioners, those receiving Social Security benefits, disabled veterans and others. In addition, all creditors are damaged while most debtors benefit. I find very few overall benefits from inflation, and those that exist are greatly outweighed by the disadvantages. Studies at the Federal Reserve Bank of St. Louis, which involved only moderate excesses in total demand, indicate that in the long run increases in total demand for goods and services do not lead to any predictable increase in real output as some have suggested. However, in all cases, such excess demand is reflected in price increases.

Total demand is affected by both monetary and fiscal policies. In recent years both have tended to be excessively expansive. Thus prices have trended upward. I believe that such price increases contribute to inefficiency, especially in the financial sector, and thereby retard growth. Thus, one means of achieving greater growth is to achieve general price stability.