FROM TODAY'S VANTAGE POINT

An address by
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When it became necessary some weeks ago to give Jeff Burnett a title for the remarks I shall make today, I was influenced by two things. First, I hadn't then made up my mind about what I wanted to say and, therefore, wanted a title which would not put me in a strait jacket. Perhaps you will agree that the title, "From Today's Vantage Point", like a Mother Hubbard, will cover nearly any subject. Second, and of even greater weight, I am at this season approaching the third anniversary of my accession to the presidency of the Federal Reserve Bank of St. Louis. Since the shortfall is but a few days, it is pleasant to me to pretend that today is the third anniversary. It is pleasant because that makes it almost the third anniversary of my first official trip into Arkansas, the only whole State in the Eighth Federal Reserve District. One of my first excursions away from St. Louis was to the Little Rock Branch. You were then and always have been so hospitable and gracious to me that I like to come back. Aside from these personal and confessedly sentimental considerations, an anniversary is an appropriate time for pausing, looking about, observing where you are, how you got there, which way you are pointed, and perhaps doing a little philosophizing. At any rate, by your leave, that's what I would like to do today.

During the past three years the people of the United States achieved a level of material prosperity which a few years ago was no more than dream stuff. In 1951 the gross national product, i.e., the sum total of the value of goods and services produced by the people of this country, exceeded $300 billion for the first time. This figure rose by about $20 billion in each of the next two years.

Preliminary estimates indicate that the gross product for the past year was $367 billion, very close to the magical $400 billion mark which in the 1940's we thought might be achieved by 1975. It should be remarked, too, that, since 1951, consumer prices have remained very nearly stable, so that the real gains to the people of the country in this recent period have indeed been substantial. By almost any measure we choose to take, these have been in a material sense the three best years in the history of our economy. Unemployment has been close to an irreducible minimum, consumption expenditures have been at all-time highs, and people have been able to save more each year than ever before except for the four abnormal and unwelcome years of World War 11.

Everything considered, until quite recently only two adverse factors have persistently given concern to us all, and special concern, I know, to you who live, work, and do business in Arkansas. One of these unfavorable forces has been the weakening of farm prices and consequent drop in farm income. The second has been the continued existence of the so-called "dollar gap" in our foreign trade, in the presence of which we have been able to maintain the recent level of our exports only by reason of our military aid to foreign countries and our direct economic aid to various and sundry nations of the world. Within the past six months or so there has been added to these two special problems the more general one of combatting forces which tend to depress the levels of income and employment in our economy as a whole. Intelligent efforts to solve these three old and new problems require us to reflect on them soberly, objectively, and unselfishly. We must look about us "from today's vantage point" and form judgments about the future which we may live to bless or, perish the thought, to curse.

The first break in farm prices after World War 11 began in mid-1948. An upturn was apparent early in 1950, and the favorable trend was given further impetus by the outbreak of war in Korea. Since early 1951, however, farmers' prices have generally gone down, and the drop since late summer of 1952 has caused widespread worry. Meantime the efforts of the Federal Government through Commodity Credit Corporation to maintain rigid support prices for the basic commodities have led to embarrassments which are becoming more and more acute. CCC's commitments on loans and its accumulation of inventories, which together exceeded $3 1/2 billion on June 30, 1950, fell by more than half to less than $1 1/2 billion by late 1952. Thereafter gradual increases in commitments brought CCC's total investment to nearly $2.5 billion at the end of December, 1952; and in the last year this figure has been more than doubled, to an all-time high as of now of over $5 1/2 billion. Nor is the end in sight. The President in his special farm message to the Congress a few days ago, on January 11, felt it necessary to ask that the borrowing authority of CCC be increased from $6 3/4 billion to $8 1/2 billion, effective July 1 of this year.

We all know, of course, that what we refer to as the "farm problem" has been more than these three years in developing. Agriculture suffered much hardship long ago, between 1873 and 1896, but these years were erased from the memories of many by a quarter century of farm prosperity which followed, the so-called "Golden Age of Agriculture". Since the post-World War 1 depression of 1920-21, however, the American farmer has been in difficulty more or less constantly. Only during World War 11 and in the years immediately after, when we were feeding the peoples of a war-torn world, was agriculture really prosperous. All this suggests basically and fundamentally a serious need for the reallocation of resources in agriculture. The spectacular advances recently made in mechanization and in the applications of science to farming have not proved to be unmixed blessings, for these advances have caused the supply of farm products as a whole to run ahead of the demand which exists for them at prices which will cover the costs of production on most farm units. Persistence of the commitment to rigid support prices, even after the demand for farm products generated by World War 11 had languished, has complicated the long-run problem to such an extent that one finds the question seriously asked: "How long can the commitment to rigid price supports be further continued without its proving to be an unbearable tax burden?"

Not unrelated to the farm problem are the difficulties of maintaining a satisfactory volume of international trade. The problem of securing a balanced foreign trade, like the agricultural problem, has existed ever since the end of what is now the old men's war, World War 1. That was my war, incidentally. Indeed, the "dollar gap" of which we read almost daily has been with us more than thirty years, and one temporary solution after another has been necessary to avoid an intolerably low level of foreign trade. During the 1920's private American investments abroad closed the gap, as did gold imports during the '30's. During World War 11 it was lend-lease and, immediately after, lend-lease and U.N.R.R.A., which enabled us to maintain our excess of exports. Then came the British loan, Army Civilian Supply of goods in occupied countries and, most important of all, the European Recovery Program. More recently a combination of direct economic aid and loans, plus United States Government off-shore purchases for military aid, have enabled us to export as much as we have exported. If our Government had not in one way or another made between $4 and $5 billion available to foreigners in each of the last two years, our exports must have been less by nearly that amount.

How important the export markets are to American agriculture is well known. In the post-war period of 1946-1952 the total of American exports was $123 billion, of which $25 billion, or more than one-fifth, consisted of agricultural products, chiefly cotton, grains, and tobacco. But only $78 billion worth of our total exports were paid for by imports. Had the gap of $45 billion not been made up by United States Government aid, the American farmer would have been worse off than he actually was. Unless such aid is to continue indefinitely in one form or another, some way must be found of increasing American imports. It is to be hoped that the Randall Commission's report, due shortly, will suggest politically acceptable ways of enabling the United States to increase its imports. To put it another way, the United States must find a way to begin acting like the creditor nation which it in fact has been for more than three decades.

So much at this time for the two special problems which have long been crying for solution. A moment ago I remarked that, as a whole, Americans have been exceedingly prosperous during the last three years. As you will remember, however, I was quick to add that we have been confronted recently with the problems which accompany and follow slackening economic activity. During 1953 there was an unfavorable turn in many of the key indicators.

Industrial production, the national income, construction contracts, and manufacturers' new orders started to drop, while unemployment and concern over the level of inventories increased in the last quarter. Because these unfavorable turns did not come all at once and were not precipitate, their impact on income earners, except in some farm areas, has to date been neither sudden nor severe. Yet within the year just ended the throbbing boom of the early 1950's unmistakably faded.

No one can be sure, of course, of the magnitude and duration of the present drop. Looking back, it is clear that business activity changed direction somewhere around mid-1953. As measured by the Board of Governors' Index of Industrial Production, which in December stood at 128 per cent of its 1947-49 base, the present decline has so far amounted to nine index points, or in other words a decline of 7 per cent. In terms of the gross national product, which peaked in the second quarter of 1953 at an annual rate of $372 billion, the drop has approximated $10 billion, or 2 1/2 per cent. Parenthetically, the record of the 1949 downturn in these two indexes may afford an interesting comparison. In 1949 production fell eleven points from peak to trough for a percentage change of 10 per cent, and gross product dropped some $11 billion (from a substantially lower level to start with), or a shrinkage of 4 per cent.

During the recession of 1949 and again through the slump in consumer durable sales in 1951, it became apparent, however, that there are strong sustaining forces in the economy. A continuing rapid increase in population and a substantial rate of household formation persist as favarable factors on the demand side. Even the distribution of the population among age groups is favorable, for the babies of the post-war boom are growing up to eat more food and wear more clothing. To such long-term natural supports must be added certain "built-in" institutional factors which operate to counteract a downward movement of activity, such as social security payments, unemployment insurance, the reduction in total tax demands as national income declines, the support of agricultural prices, and so on.

Such encouraging considerations as these have a certain cogency and should, I think, keep us from becoming unduly frightened. At the same time we must not be deluded. The positive signs of incipient recession must be neither overlooked nor lightly explained away. A sharp decline in business activity would make even more serious the agricultural and foreign trade problems of which I spoke a moment ago. We must not forget that a high rate of industrial activity means both a sustained demand for farm products and possible job openings for those who wish to leave areas of surplus farm population. Rising incomes and employment mean, too, a high propensity on the part of Americans to import goods and services; but contrariwise, a slump in America means falling sales by foreigners in this country, possibly spreading depression abroad and thereby bringing about a decline in our own exports. Surely we would all avoid a recurrence of severe depression with its accompanying physical hardships and the degradation of those who are without livelihood and hope for the future. I do not preach - rather I denounce - a psychology of fear. I am an optimist by nature. But optimism in these matters must be buttressed by sane, calm, statesmanlike thought, planning, and action. We must diagnose our problems objectively and fearlessly; we must decide on our course of treatment and carry it out with equal justice and courage.

Any approach to these problems of ours requires that we be agreed on our objectives. I take it that Americans wish to preserve the institutions of a capitalist economy, and that we are committed to the proposition that allocations of resources should be determined by the workings of a free price system. This means that incentives must be offered to him who would venture his capital in any endeavor, whether he be manufacturer in Little Rock, banker in Pine Bluff, or farmer in Greene County. Yet, as has been often remarked, it is misleading to talk about "a profit system", for ours is a "profit-and-loss system". He who ventures must run the risk of losing. Either that or we must resign ourselves to an economic system in which losses are socialized. Among the questions we have to decide are these: Do we like the idea of socializing profits? Do we like the idea of socializing losses any better?

Having pondered these questions, I suggest we proceed to ask ourselves whether we think it is the responsibility of Government to maintain over the years a fixed, high level of income for any special interest or group in the economy. We should keep ourselves reminded that as changes inevitably occur in the desires of consumers and such changes are registered in the market place, producers of particular goods and services, with like inevitability, will be adversely affected. Should those so faced with falling demand for their output be expected to have first recourse to Government, or should they be expected first to have recourse to the traditional tools of a freely competitive economy? Given a favorable political climate, what tools of a freely competitive economy are available? These are some of them: (1) Ability and willingness to analyze markets, to use imigination, to do research or at least adopt its results, all toward the end of producing goods and services that the market wants or will take; (2) ability and willingness to achieve efficiency in production and thus to reduce production costs; (3) ability and willingness to achieve effectiveness in salesmanship and efficiency in distribution. To a great many, after long years of war and preparation for war, some of these tools are new and strange. To others they are not new but forgotten. To a few, unfortunately, they are neither new nor forgotten, but unwelcome because it is work to use them, plain, hard work. Another question we must ask ourselves is whether we shall cast these tools into the discard or firmly encourage and require their use.

It is not my purpose to suggest answers to all these questions. I only suggest that you and every other citizen of this country continue to give them your earnest and prayerful consideration. Nor do I mean to suggest or remotely imply that Government has no role to play in promoting economic health and growth. I would be untrue to my convictions and distinctly out of character if I were to leave you with any such impression. Even if you should resolve in your own minds that Government should not undertake to maintain everyone's profit position, it will be obvious to you that Government has an appropriate and essential role to play; and that role is wholly consistent with the fundamental objectives to which I assumed agreement a moment ago. In the first place, I apprehend there would be little or no dissent from the assertion that Government should stand ready to provide direct relief in necessitous cases of distress with which Government alone, or better than anyone else, is able to deal adequately. Relief of the victims of drouth, flood, or other catastrophic circumstance is illustrative, but not exclusively definitive, of this category of governmental action. In the second place, and offering an opportunity which is not only wider in scope but also calculated to prevent distress as well as relieve it, Government may serve as a buffer against sudden and drastic drops in income during downward phases of the business cycle. Stated otherwise, Government may make important, essential, and effective contributions to economic stability and to mitigation of excesses in the business cycle. Indeed it should be said, in my opinion, not that Government "may" do these things but that it is its duty to do so. For a brief moment before I close let me invite your attention to the administration of the second broad category of governmental action which I have just mentioned.

We have recent evidence that monetary authority, which in this country the Congress has seen fit to delegate to the Federal Reserve System, can act promptly and courageously to mitigate a downturn in business activity. In response to the economic changes we have noted during 1953, Federal Reserve credit policy shifted from one of restraint to one directed toward a measure of ease in the money market. By early May there were indications that the credit and capital markets were becoming too restrictive for the preservation of economic stability, and the Federal Reserve System began adding to bank reserves through the purchases of Treasury bills. In total, these purchases provided roughly $1 billion during May and June, substantially easing bank reserve positions by mid-year. Pressure on bank reserves was further eased by a reduction of about $1.2 billion in reserve requirements during early July. Further purchases in the open market over the second half of the year and advances to Government securities dealers under repurchase agreements in December and early this month also contributed to ease in the market by countering the usual year-end tightness. So long as present conditions obtain, bankers may expect that they will be encouraged to lend by having adequate reserves made available to them. It is not unreasonable to suppose that the continuing availability of credit to both short-and long-term borrowers will be a major factor in limiting and inhibiting the recent business downturn.

It may be, however, that Government must lean at times more heavily on the instrument of fiscal policy. Notwithstanding the desirability of striving in good times to avoid deficits and consequent addition to the public debt, it may be that resort to deficit spending may be indicated, if necessary to stem a tide of deflation. There are those who hope, however, that a new approach to such spending may be developed, and that the instrument of fiscal policy may be so sharpened that it can be effectively directed at those industries and those localities which are especially in need of assistance.

To sum up, let us say that it is the obligation of government in mid-20th century to provide a salubrious climate within which free entrepreneurs may operate. These risk takers are entitled to have assurance that they may largely reap the fruits of their risks and labors and that the Government will by appropriate action do what it can to prevent a grinding deflation from distorting and torturing the framework of the economy. In determining what is appropriate, we should be sensible of the immediate and - more important - the long-range effects of damming up the flow of resources from one use to another by expedient, long continued interference with the allocative mechanism of a free price system. We must turn our faces in the direction of cooperation, even aggressive cooperation, with the nations of the world toward the goal of removing impediments to international trade. We should guard against use of the powerful instruments of monetary and fiscal policy in such a way as to encourage and reward inefficient and wasteful business methods.

We must, in short, do more than lip service to the ideal of a free economy if our free institutions are to survive. If we are to enjoy the benefits of the marvelous apparatus of competition, we must permit it to work. Here in the State of Arkansas, where the happy signs of growth, development, and progress are all about you and where your gains have been won in a great competitive struggle, I suspect I have not said anything you do not already know and believe.

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