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NEP AND THE FAMILY IN '72

Talk by Edward G. Boehne
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at the 1972 National Agricultural Outlook Conference
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As a nation we can reduce our economic objectives to three basic goals: one, to provide jobs for those willing and able to work; two, to prevent inflation from undermining the value of the dollar; and finally, to keep our economic dealings with the rest of the world in reasonable balance.

What we want and what we get, of course, are two different things. Rarely in our economic history have we been able to achieve all of these goals at once. Typically, we've achieved one or two to the detriment of the other. For example, in the latter part of 1950's and early 1960's, we had stable prices and high unemployment. In the late 1960's, we had low unemployment but high inflation.

But just as we've seldom hit all three objectives simultaneously, we've seldom missed all three simultaneously. Yet, we were doing just that last summer -- missing all three. The unemployment rate was high, prices were rising rapidly, and for the first time in this century we faced a year when our imports would exceed our exports. Clearly, something had to be done quickly and decisively to shore up the confidence of the American family in the economy.

Enter NEP

This was the background to the President's dramatic speech last August when he announced the New Economic Policy. First, he proposed special incentives, such as repeal of the auto excise tax to stimulate spending that in turn would create new jobs. Second, he imposed a 90 day freeze on wages and prices which was followed by the Pay and Price Boards to hold the line on inflation. Finally, he took steps that eventually led to devaluation of the dollar so that American goods could become more competitive abroad.

The net result of all this to date is favorable, I think. The economy has picked up steam since last summer, more jobs have been created; prices, although they are rising, are on balance not rising as quickly, and American goods are more competitive today in foreign markets than they were a year ago. The real question today of course does not concern the past, but what about the future. Where is the economy going in the coming months and what will it mean for the typical family?

Outlook for Employment

The best way to get a reading on where the economy is going is to break it apart and look at its major parts. The biggest sector is consumer spending which accounts for over 60 percent of total spending in the economy. So let's start there.

I believe that the consumer will open his wallet wider in 1972. He already is and I think he will continue to do so. But I do not believe he will go on a wild spending binge. He is still going to be careful with his money, he'll be price conscious, and more often than not in the months ahead you'll find the American consumer in the bargain basement rather than at the high priced counter.

Businessmen, too, will be spending more in 1972. They will be modernizing their production to increase efficiency, and they'll be spending for pollution control as well. In addition, as the economy picks up, they'll be adding to their inventories.

Housing construction is in for another good year. Last year over two million housing units were built -- the best in twenty years -- and with mortgage money available and a strong demand for more housing, there is no reason to expect anything but another 2 million unit year.

Government spending, too, will add momentum to the economy. Federal purchases of goods and services will rise nearly \$10 billion this year over last. State and local outlays will add another \$15 billion to economic expansion.

So, add up the various components in the economy, and the outlook is for a healthy expansion. 1972 should be the best year in terms of real growth since 1965.

How many new jobs will be created by the economic expansion? A rough guess is that about 2 1/4 million more people will be working by the end of 1972 than were working at the end of last year. Good news to the American family? To be sure, but more people will also be looking for jobs, especially young people. Again, making a rough calculation, I estimate that there will be about 2 million entrants into the labor force this year. Simple arithmetic tells us that with 2 1/4 million new jobs

and 2 million new job seekers, unemployment will be reduced 1/4 million by the end of the year. Progress, yes; moving in the right direction, yes; but there will still be a little under 4.7 million unemployed at 1972 draws to a close. This means, in particular, that teenagers and others looking for their first jobs will have to pound the pavement to find them and some will go jobless for awhile. So you ought to advise high school graduates this spring to start early and try harder to find employment. It also means, for example, that wives going back into the labor force after being out for several years likely will have to look hard and perhaps long before coming up with a job, especially a good one.

Outlook for Inflation

There are three reasons why I think the rate of inflation will be less this year compared to last. The first is that despite all the problems that go with wage and price controls, the Pay and Price Boards are making progress against inflation. The Pay Board especially has been tightening up in recent weeks against exorbitant wage increases. They are attempting to close the gap between the standards that, in fact, apply to unionized workers and non-unionized workers. I believe this is essential to the success of Phase II, and the Pay Board is at last making convincing moves in this direction.

Second, the outlook for increasing productivity -- output per manhour -- is good. The typical pattern during economic expansion is that businessmen are able to cut costs per unit of output. This reduces cost push pressures on prices and puts a damper on inflation.

Third, even though the economy is expanding, there is still excess capacity in plants around the country. In other words, we're still in a buyers market. And I'm sure all of you know enough about trading to know that is harder to raise prices in a buyers market than a sellers market.

So, all in all, while I don't think we'll end inflation this year, we will be making major strides in reducing it. I don't have to tell you what good news this is for the family budget.

International Outlook

Let me talk briefly about the dollar devaluation. Simply stated, when the dollar was devalued, American produced goods became cheaper overseas and foreign produced goods became more expensive in the United States. The upshot of the devaluation, therefore, is that we will export more and import less with a devaluation than without it. In time, the devaluation should create several hundred thousand jobs. And that too is good for the American family.

Let me add a word of caution, however. Some people say that we ought to go further and put additional restrictions on imports. Then, we would create still more American jobs by keeping foreign goods out. Now the fallacy of that logic ought to be clear to everyone. Trade is a two way street. If we put

more restrictions on foreign goods, then other countries will put additional restrictions on American goods. And all of us -- U.S. and her trading partners -- would be the losers. Trade makes sense, it creates jobs and makes production more efficient. Trade barriers are akin to killing the goose that lays the golden egg. They make sense only until you start thinking about the consequences.

Outlook for Interest Rates

Let me say something about the outlook for interest rates, especially those that affect the American family most directly. As you know, market rates are well below what they were last summer. In short NEP has had a favorable influence on rates. Typically, mortgage rates and consumer loan rates are influenced by market rates with a lag. If this past relationship holds, as it should, we can expect further moderation in mortgage rates and rates on consumer type loans in the immediate months ahead. Again, I don't have to tell you what good news this is for the American family.

Summing Up

In summary, I think the outlook for the economy as a whole is brighter now than it has been for several years. Business is expanding, jobs are being created, inflation is unwinding, and our international imbalance is improving. That's not to say that we will have no problems. Too many people will still be unemployed a year from now; to lick inflation will require a great deal of national discipline; and we'll have to strive even harder to stay competitive in world markets. But even with these problems, the New Economic Policy will improve the material well being of most American families in 1972.