

BUSINESS REVIEW

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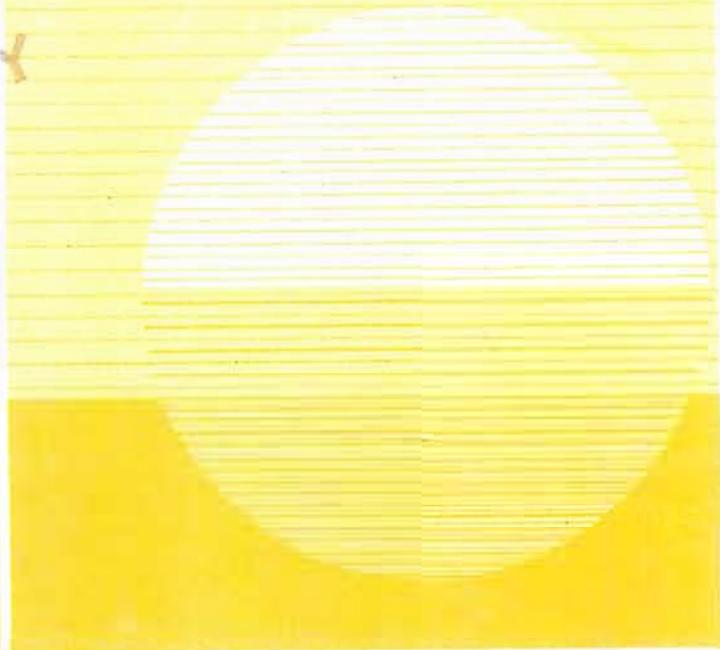
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OUR VANISHING GOLDEN AGE?



Also:
Potential Competition
and the Banks
&
The Fed in Print

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OUR VANISHING GOLDEN AGE?

David P. Eastburn

... After 30 years of rapid economic growth, the industrialized world faces a shrinking resource base. But intelligent action still can avert an end to this golden age, the author says.

POTENTIAL COMPETITION AND THE BANKS

Timothy Hannan

... The mere threat that a new institution will enter a local banking market can produce effects much like those of actual competition.

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Our Vanishing Golden Age?*

By David P. Eastburn, President
Federal Reserve Bank
of Philadelphia

I've just returned from a short stay in Greece where I had an opportunity to examine the remains of classical Greek civilization. Much of it was the product of a relatively brief frenzy of activity around 450 B. C. when Pericles was in power. This was a golden age for Greece. It was remarkable in its time, but it has passed.

Perhaps this has influenced my choice of a theme this evening. A number of percipient analysts of our current civilization are saying that we have seen a golden age in the past 30-odd years and that this age is vanishing. I want to examine this idea, what's behind it,

and what it implies for the future.

THE GOLDEN GENERATION

A generation is roughly 30 years. If you were born 30 years ago—as many of you here were—you would have lived through a remarkable era. Let me give you a few facts.

First off, there has been a substantial change in how much we earn. A family now has about twice the purchasing power—even after allowing for inflation—of a family at the end of World War II. A typical worker in 1947 had to work almost nine months to earn enough for a car; today, he can earn enough in less than five months. And because of these rising incomes, the total real wealth per person has quadrupled.

There has been a tremendous leap in health, education, and housing. We now can transplant organs as complicated as the heart,

*Remarks delivered before the Saint Joseph's College Alumni Accounting Association, Bala Cynwyd, Pennsylvania, November 3, 1977. The views expressed are mine and do not necessarily reflect those of my colleagues in the Federal Reserve System.

kidney, and parts of the eye. A shattered knee can be replaced with an artificial joint, and the threat of polio has been all but eliminated. A child born today can expect to live about 15 percent longer than his counterpart of 30 years ago, and his chances of surviving the ordeal of birth are about 50 percent greater.

We are better educated. The proportion of the population over 25 years old with four or more years of college has jumped by 50 percent. And the typical American now has better than 12 years of schooling compared to 9 years three decades ago.

What we live in has also changed dramatically. Nearly half the population lived in dilapidated or substandard housing at the end of World War II. Today, only 7 percent of the population lives in such a fashion. Two-thirds of us now own our homes; 30 years ago the majority rented. And our homes are filled with TV sets, air conditioners, and dishwashers that were rare or nonexistent a few decades back.

But perhaps the most striking and far-reaching developments have occurred in technology, science, and information. We have the computer. Today, business—including accounting—simply could not function without the computer. It has allowed us to analyze the burgeoning information flow with a speed and accuracy unimaginable a generation ago. It played a major role in putting men on the moon and is crucial in our satellite communications network. In short, it has greatly accelerated the spread and implementation of new technology.

We take jet travel, atomic and nuclear energy, television, satellite communication, and space shots for granted, yet none of these was a part of the world 30 years ago. Moreover, the rate at which new technology is being implemented is estimated to be some 70-80 percent faster than it was prior to World War II.

So we have become healthier and wealthier, if not wiser, at an astounding rate during the past three decades. This explosion of tech-

nology and material well-being seems to outstrip by far that of any other period. Many students of progress do label it a golden age.

All this is not to say that the past 30 years have been sweetness and light. They have seen troubles aplenty—the Korean and Vietnam wars, race riots, generational conflicts, breakdown of our cities, Watergate, a major recession, and frightening inflation. So, if it is true that we have been living through a golden age, it is gold with a good bit of tarnish. And, some say, it contains the seed of its own destruction; the golden age will be vanishing during the rest of the century.

They see two possible scenarios. One we might call the Mother Hubbard scenario, the other the Gone Fishin' scenario. Let's look at each of these briefly.

MOTHER HUBBARD

Will we go to the cupboard and find it bare? Certainly, we have been using up resources at a furious pace during the golden years. It would hardly have been possible to produce as much as we have, to have improved our material well-being so greatly, without using up vast quantities of resources. And it is true that we have been so preoccupied with our affluence that we have given little thought to the resource base.

In less than two decades, however, we have refocused our concern from Galbraith's *Affluent Society* to the Club of Rome's *Limits to Growth*.¹ Now geologists, agronomists, and physicists are at center stage. Whether we will have sufficient basic resources to sustain and expand life as we have come to know it depends to a considerable extent on what they have to say.

But it also depends on what economists have to say. I can't speak for the scientists. I

¹John Kenneth Galbraith, *The Affluent Society* (Boston: Houghton Mifflin Company, 1958); *The Limits to Growth: A Report for the Club of Rome's Project on the Predicament of Mankind* (New York: Universe Books, 1972).

don't propose to examine the geology of petroleum deposits, the technology of solar energy, or the chemistry of the Green Revolution. But I would like to say a word about the economics of the resources problem.

Start with the reality that resources are limited. There is just so much oil, coal, and iron in the ground; there is just so much cultivatable land. At some point on this collision course the collision happens; rising demands on resources run into the limit of resources. Nobody really knows when. Alarmists see it happening soon enough that we must immediately begin slowing growth. Others—including myself—see good possibilities for the economy to work out a solution, at least within the time period most of us can foresee and care about.

Whether the economy actually can do this depends on whether we let it do it. Congress right now is in the throes of deciding how to deal with energy. Advocates of a flexible price system say we have the solution built into our economy. When there is more demand for something than supply will support, its price will go up. This induces some to cut back on their demand and stimulates others to increase supply. As resources eventually begin to run out, prices not only will ration what's left but will induce some producers to find alternative ways of meeting the demands. In the case of oil, for example, rising prices will cut back on gasoline consumption by car drivers and encourage producers to sink new wells. As we begin to run out of oil, rising prices for oil will help conserve the remaining supply and encourage the development of, say, solar energy.

This seems so simple that you ask why doesn't it happen. The catch is that for the process to work, for this automatic carrot-and-stick method to be effective, some people will seem to gain and others seem to lose. In the case of oil, the oil companies may gain windfall profits, the small farmer may have to pay much more to run his tractor. So the

problem of inequity raises its ugly head. The average American has such strong feelings about fair play that it is hard for him to let an impersonal market system work out a solution. You may argue with him that it is all for his own good and that if producers are not given some incentives to produce there will be nothing for him to consume. But I suspect a good many Americans would rather line up at the gas pump than see oil companies get windfall profits.

This poses a real dilemma for policymakers, but not an irreconcilable one. The price system can do a much better job than controls in dealing with the resources problem. It should be allowed to work. Together with a free rein for development of new technology it can help to stretch out existing resources, develop new substitutes, and direct them to the most productive uses.

The equity problem requires taking a long view. At times some producers may have to be rewarded especially well when supplies are short and there is a need to expand them. Over a longer period, however, it should be easier, through tax and subsidy programs of government, to prevent gross inequities from persisting.

Obviously, this kind of solution is a trade-off. Completely controlled prices in the interests of equity can create havoc. Complete laissez-faire without regard to equity will not be accepted by the American public. Policymakers must steer a course in between.

I have hopes that this can be done with some degree of success. If it can, the Mother Hubbard scenario need not be in our future for a long time to come. I see no need for it to foreclose many more golden years.

GONE FISHIN'

The other threat to the golden age is the Gone Fishin' scenario. This would have the American people become so unproductive as to slow growth at best to a sluggish pace. The horrible example held before us is England where, it is said, factories are inefficient,

managers incompetent, and workers preoccupied with afternoon tea. The welfare state attempts to give everything to everybody from cradle to grave, but no one is interested in producing enough to make it all possible.

How realistic is this for America's future? I can see two aspects of this scenario, one of which doesn't seem a threat, the other of which does. The first is the work ethic. This is a distinctively American phenomenon that is credited with many of the advances in well-being that we enjoy. We want more things and are willing to work for them; we work hard and so produce more. Now I have tried to get a fix on the reality of the work ethic. Many respected observers claim it is real and cite studies and statistics to support their view. Others point to the dehumanizing aspects of the assembly line, a decline in pride of workmanship, and cheaters on unemployment and welfare roles. Both are probably right. On balance, I'm inclined to place a good deal of faith in the work ethic. We have more important things to worry about.

One of them is a lag in investment in productive plant and equipment. In a recent speech Arthur Burns has explored the problem at length, and I commend it to you.² The conclusion is that business is not investing sufficiently in new productive capacity to ensure rapid growth in output in the future. Many reasons can be brought to bear. Business has experienced a number of major shocks in recent years, uncertainties abound, and profits have been relatively low. My own assessment is that matters have not proceeded so far that corporate leaders would

²Arthur F. Burns, "The Need for Better Profits." An address delivered at Gonzaga University, Spokane, Washington, October 26, 1977.

rather go fishin', but this is a danger to be guarded against.

Again, in both aspects, equity plays an important part. The work ethic will disappear if fair rewards for work are not forthcoming, and investment can languish if business profits are unfairly low.

In short, I see more threats in the Gone Fishin' scenario than in the Mother Hubbard scenario. But they are still only threats and it is by no means too late to deal with them.

CONCLUSIONS

So I am optimistic. Intelligent action by those in responsible positions in the private and public sectors can continue whatever goldenness we may have enjoyed in the last 30 years. That is to say, economic growth can continue to be rapid, technological advances can proceed apace, resulting enhancement of material well-being can flow to society.

This is not to say that life will be just the same. We will be increasingly conscious of the Mother Hubbard problem. We can no longer be so profligate in our use of resources or abuse of the environment. And I suspect we will be sufficiently impressed with the Gone Fishin' scenario as to go fishin' more often. Studies suggest that there is not always a clear relationship between happiness and affluence. I believe the American people will continue to seek more material things, but increasingly they will be seeking happiness and whatever, in addition to things, they need to produce it—leisure, contemplation, and escape from the rat race. Over a century ago a great economist, John Stuart Mill, envisioned a time when we can turn our minds to "improving the Art of Living" rather than being "engrossed by the art of getting on." In this sense we can look forward to a truly golden age.