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Goals for the American Economy

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I SHALL approach the topic of goals and values for agriculture by way of a review of goals for the economy.

The CEA is not centrally involved in agricultural policy. It does undertake to interpret developments in all broad sectors, including agriculture, and to relate them to the over-all performance of the American economy. The CEA was called into being for that purpose by the Employment Act of 1946.

It assists the President in reviewing the state of the economy and in recommending policies which will promote the goals expressed in the Employment Act. In advising the President the CEA reports and evaluates facts, makes forecasts and appraises policy choices. These choices are necessarily appraised in the light of a vision of what is both desirable and possible. The validity of policy choices often hinges as much upon an understanding of how the economy works as it does upon resolve to accomplish a set of goals.

Our emphasis here is upon goals, and the following is a summary statement concerning them. Goals for a complex economy which operates in a democratic setting can never be stated with finality. In this country, government does not, of course, set forth a detailed plan of output or a catalog of specifically directed performances. Rather, under our free institutions, individuals and groups make their own choices as to producing and consuming, spending and saving. In our society the powers of government are limited and success or failure in reaching economic objectives turns on the energies and initiative of our citizens in their capacities as businessmen, workers and farmers. Government provides a basic framework within which such

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choices are to be made, sometimes limiting the range of the permissible, sometimes enlarging the range of the feasible. Maximizing the free choices effectively open to all individuals is the basic aim of economic policy in a democracy where ultimate value is the integrity and dignity of the individual human being.

A SET OF INTERRELATED GOALS

National economic policy seeks a reasonable accommodation among a variety of related but sometimes partially conflicting goals. These goals are concerned not only with the quantity of goods and services produced, but also with the quality and composition of the output, the equity of its distribution, the nature of its final uses, and the character of the economic system and institutions themselves.

The authors of the Employment Act of 1946 referred to a complex of goals. They declared the government's interest in "creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing and seeking to work, and to promote maximum employment, production and purchasing power."

By these words the act indicates concern for both goals and methods, for both means and ends, for both quantitative and qualitative measures of achievement. "Useful employment opportunities" are ends. They are also the means to higher production; and production, in turn, is a means to the final use and enjoyment of goods and services. Similarly, the act refers to the context within which the more immediate goals are to be sought. Thus, maximum employment is to be sought "in a manner calculated to foster and promote free competitive enterprise and the general welfare."

The major goals which Americans set for their economy and among which they seek a workable balance are as follows:

- full employment and full utilization of the nation's productive capacity
- satisfactory growth of capacity to produce
- efficient use and allocation of that capacity
- fair sharing of output and of opportunity
- reasonable stability in the general level of prices
- meeting the economic responsibilities of world leadership.

Full Employment and Utilization

The goal of full utilization centers attention upon employment of labor and use of existing capital and available resources. Failure to achieve this goal means that the creative energies of some workers go unused and that the full productive potential of the economy is not called into action. The waste of such underutilization is irretrievable; the unused productive power of past years is forever lost. Such underutilization excludes some individuals from participation in the economy. It involves severe hardship to many unemployed persons and to their families. Full utilization is the key to successful economic performance; failure to achieve it may frustrate the pursuit of many other goals. A persistent gap between actual and potential production is indefensible economic waste.

Growth of Capacity

The rate of economic growth will determine the extent to which increasing millions will be able to enjoy a better, more rewarding and more secure life tomorrow.

However, without full use of existing capacity it is difficult to achieve a high rate of growth of the capacity to produce. With a labor force that is growing by 1.6 percent a year there is some "built-in" growth of capacity, but if there is to be growth in output and income per worker, there must be improvement in the quality of the labor force, net additions to plant and equipment and introduction of improved technology.

Efficient Use and Allocation

Resources should be not only fully employed but employed where and in such a way that their productive contributions are greatest. Sometimes goods produced are of less value to consumers than others not produced — this may happen because of arbitrary tax advantages or ill-considered subsidies. Sometimes monopolistic power is exploited to restrict production in order to keep prices or wages up, even though new business firms and new workers are willing to produce and take jobs. Practices of this kind distort the distribution of income and lower the standard of living for society as a whole.

A free market economy, relying on private incentives and

reflecting private choices, allocates and uses resources efficiently in most situations. But there are also cases in which efficiency demands that private productive activities be supplemented by public undertakings. The clearest example of such an activity is national defense. We all have a stake in a strong defense in today's world, and there is no way to provide it except through the federal government.

The features of a "public good" which stand out so clearly in the case of national defense are present in some degree in almost all major programs of government at all levels. We travel the same highways, waterways and airways; we enjoy the same national parks and forests; we are protected by the same police and fire departments; our health depends on the same measures and facilities for public sanitation.

And we all reap the benefits of living in an educated society. Our whole society depends, in ways we take for granted, on our ability to communicate with each other. Widespread education and training are essential to technical progress. A better educated citizen also makes a greater contribution to the political process, to organizations to which he devotes a part of his leisure time and to the lives of those around him. Further, education, like defense, yields nationwide benefits in addition to the benefits to individuals and to local governments. The economy is nationwide, the political processes of our democracy are national in scope and the population is increasingly mobile within the nation. Hence, there is a specifically national interest in and responsibility for supporting education.

Fair Sharing of Output and Opportunity

Equality of opportunity for all persons without regard to color or creed or inherited circumstances is a central part of the American dream. A high level of employment is an important step toward this goal. Unemployment hits first and hardest the least fortunate, the least skilled, the least trained members of our society.

The American goal is equality of opportunity, not equality of condition. We recognize the social interest in rewarding achievement and effort. But equality of opportunity places limits upon the tolerable degree of inequality of condition. It is particularly our obligation as a democratic society to prevent the misfortunes of one generation from limiting the economic destinies of the next. Without good health and decent education and individual does not have a fair opportunity. Social insurance, public assistance

and social service programs assure a minimum level of living below which individuals are not expected to fall. By these means governments can assist families in building defenses against the economic losses associated with unemployment, disability and old-age. Equity in the distribution of income is an important goal of our tax structure and of our policies to prevent or regulate private monopoly power.

Price Stability

Reasonable stability of the general price level is necessary for achieving the goals of efficiency, equity and international equilibrium. Instability in the general price level can lead both to inequities and to inefficiencies. A sharp general rise in prices disrupts business relationships and undermines the purchasing power of incomes and assets of fixed recovery values. Inflation amounts to an arbitrary system of taxes and subsidies, numbering among its taxpaying victims groups, including retired persons, with the least defenses against hardship. Of special importance, a rapid rate of inflation can disarrange our trade relationships with other countries, thereby requiring painful adjustments among industries that sell abroad or which rely upon imported materials. Inflation is of concern at this time particularly because of its impact upon our balance of payments.

Fulfilling the Economic Responsibilities of World Leadership

The United States has undertaken large commitments around the world to defend freedom and to aid the rapid economic development of the free nations of Asia, Africa and Latin America. One goal of economic policy is therefore a large enough surplus in our trade and private capital transactions with foreign countries to pay for defense and foreign aid. Confidence in the dollar must be maintained because it is the key reserve currency in the system of international monetary payments.

Striking a Balance

These several economic goals are interrelated, and in many respects complementary. Full utilization of existing capacity will facilitate the further growth of productive potential and the elimination of inefficient practices. Higher employment, greater

production and faster growth will in turn improve opportunities for many individuals whom a weak and sluggish economy passes by. At the same time, investment in educating and training these individuals will help to accelerate national economic progress.

But on some occasions, conflicts may arise among the goals. More specifically, the means proposed to achieve one goal may be inconsistent with the achievement of other goals. Some measures to improve efficiency and incentives are bound to increase inequality in income and wealth. Like other industrial countries, the U.S. has sometimes faced a conflict between high utilization on the one hand and price stability on the other. In some respects, particularly those of monetary policy, the needs of domestic expansion may be at odds with those of external equilibrium. But measures can usually be found which contribute simultaneously to several goals and interfere only minimally, if at all, with others.

BROAD TYPES OF ECONOMIC POLICY

The preceding is an overly simplified statement of goals. It does not reflect all the concerns of particular groups or sections of the country. Nor does it give sufficient attention to the prices that must be paid to achieve goals. These "prices" are indicated by policies advocated in pursuit of goals.

Chairman Walter W. Heller, in testimony before the Joint Economic Committee, recently summarized the main lines of economic policy of the Kennedy administration under three headings. First, policies to increase the productive capacity of the economy. Second, policies to increase demand for both consumer goods and investment goods. And third, policies to accommodate, adapt and re-adapt the nation's economic resources, especially manpower, to the demands of a dynamic and growing economy.

With regard to increasing the productive capacity of the country, he referred to the possibility of raising the annual rate of growth in our gross national product from its recent level of 2.7 percent to over 4 percent. To do this will require allocation of a larger share of our capacity output to investment in research, education and physical capital.

One important measure toward achieving this higher rate of growth is bringing about higher utilization of the existing capacity to produce, and one way to do this is to induce a higher level of demand by expansive fiscal policy of the type proposed by the administration. This is a policy to absorb the manpower released by increases in the capacity to produce.

The third type of policy reviewed by Chairman Heller is integral with the first two. Along with growth and high levels of demand, a successful economy will have problems of change — change in the final products we will consume, change in the methods and location of production, change in the nature of jobs that are to be done. These changes arise because of shifts in consumer preferences, because of the continuing flow of discoveries and inventions and because of new developments in world trade.

All of these changes require that individuals adapt and re-adapt in their role as producers. Further, they call for governmental programs such as the Area Redevelopment Act, the Manpower Development and Training Act, and the re-training and relocation provisions of the Trade Expansion Act of 1962.

AGRICULTURE IN THE NATIONAL ECONOMY

The relationship between growth of capacity to produce and the need for change is dramatically illustrated by the case of agriculture.

In 1962 agriculture was using slightly less land (10 percent less) and considerably less labor (38 percent less) than in 1950. Yet total farm production was 25 percent higher. Prices of all farm products were 7 percent lower in 1962 than in 1950. Total farm income in this period fell about \$1 billion (from \$15.7 billion to \$14.8 billion) in current prices, but net income per farm, in 1962 prices, rose from \$2,951 to \$3,525.

In 1963 there are almost a third fewer farms than there were in 1950. The farm population is 9 million smaller than it was at that time and has fallen from 15 to less than 8 percent of the total population. Fewer people live on farms than in what is called the "standard consolidated area" of New York City. And people living on farms receive a third of their income from non-farm sources. The total personal income received by the farm population is 4 percent of the national total. The income from farm sources (\$15 billion) is only a little more than the amount (\$11 billion) the federal government pays in the form of wages and salaries to its military personnel.

The production of more with less labor time, by means of more capital and superior technology, is what is meant by economic growth. Agriculture has certainly done its share toward the achievement of that national objective, with product per man-hour rising at an average rate of about 8 percent per year, well above the national average. This statistical disparity is due in

some part to the departure from agriculture of many of the less productive workers who have accommodated a rise of the national average by moving to what were for them higher productivity employments.

It is a truism that national product would be maximized by a continuing transfer of labor out of agriculture until the value of the additional product of one more worker in nonagricultural employment is equal to the value of the loss occasioned by his departure from agriculture. From the point of view of the national economy, and abstracting from a number of value-judgment issues, agricultural policy may be evaluated by the contribution which it can make to increasing national income and product. Does it facilitate increases in agricultural productivity and at the same time facilitate movement out of agriculture to higher value employments? In 1963 one-third of the farms produced over three-fourths of the value of farm output, and this means that there are many very-low-value producers in agriculture.

Here we see a clear connection between the so-called farm problem and the problems of continuing slack in the total economy. Clearly, one of the greatest contributions government can make to the farm population is to maintain a growing over-all demand for the expanding quantity of goods and services which our increasing population is capable of producing. This will continue to open new opportunities for those on farms as well as in cities.

SUMMARY AND CONCLUSION

We have asserted that there is a set of goals which Americans set for their economy. These include high-level employment, economic growth, efficiency, equity, reasonable price stability and world economic leadership. Making policy often requires that we strike a balance or make some "trade-off" among these several goals.

Federal economic policy is pursuing three main lines. These are increasing the productive capacity of the economy, increasing demand for both consumer and investment goods and adapting resources to changing demands.

American agriculture gives us a dramatic example of the possibilities of rapid economic growth. It also demonstrates the need for continuing increases in the level of total demand and for assistance to individuals in adapting to the changing needs of the economy.

Americans are living in an environment of great promise for

fulfillment of economic goals. As President Kennedy said in his economic report, "The decade ahead presents a most favorable gathering of forces for economic progress. Arrayed before us are a growing and increasingly skilled labor force, accelerating scientific and technological advances and a wealth of new opportunities for innovation at home and for commerce in the world."

It is most appropriate, therefore, that there should be conferences on goals and values to give direction to this "most favorable gathering of forces," which can give us economic progress and an improved quality of life.