PROSPERITY IN THE U.S.

Analysis and Forecast

EDITOR'S NOTE: Certainly one of the premier political forces in the world today is the rampaging U. S. economy, and the extent to which its fruits are shared by the average citizen here at home as well as abroad. A serious recession in America would be a disaster for the Free World, for American prosperity represents the glue that binds the allied nations outside the Iron and Bamboo Curtains. This issue of *The Saturday Review* has been planned to take a hard look at our boom and its future prospects. In planning it *SR* has been guided by the informed counsel of a special Editorial Advisory Board. The members of this Board were: for industry, **Clarence B. Randall,** chairman of Inland Steel Corp. and foreign economic policy advisor to President Eisenhower; **Harry A. Bullis,** chairman of the board of General Mills; and **Gilbert W. Chapman,** president of Yale and Towne Mfg. Co. For economic research and analysis: **Leo Cherne,** executive director of the Research Institute of America; **J. Frederic Dewhurst,** executive director of the Twentieth Century Fund; and **Dexter M. Keezer,** vice president of McGraw-Hill Book Company. For education: **Dr. Courtney C. Brown,** dean of the graduate school of business, Columbia.

A Depression-Proof Economy?

'y DEXTER M. KEEZER

HAS the American economy now got what it takes to sustain a high level of prosperity? Has it ›en made relatively depression-·oof? My answer is "Yes." The reans follow.

At the outset let me make it clear at I do not count general prosperity the equivalent of general comfort. y conception of a generally high vel of prosperity also accommodates ne ups and downs. For example, vould not regard unemployment of r 5 per cent of our labor force for brief period, say a few months, as onsistent with the maintenance of ιigh level of prosperity.

n 1955 we learned a lot about the comforts of booming business—tier streets because everyone is so .l paid that we cannot afford to get m cleaned, larger consignments of g from factories too busy to stop cut them down, buses built for nies because the space is so valu- but jammed with oversized and over-vitaminized humans, shortages of all kinds of service required for a comfortably civilized life, and an extra dosage of indifference with the service provided because "If you don't like it, you know. . ." We shall learn more about these discomforts in 1956 which, along the way, will surely establish new all-time highs for the nation's total volume of business.

As far as bumps in the ascending course of business are concerned, I shall not be shocked if we hit one, at least so far as industrial production is concerned, almost before the ink on this discourse is fully dry. The automobile manufacturers have been producing 1956 models at a terrific rate. There are reports abroad that the zeal to purchase these new models has not been ascending at anything like a comparable rate. So an abnormally sharp cut in automobile production may be in the offing.

In any event, business cannot keep expanding at the record peacetime annual rate (about 8 per cent) it has expanded during the past year, for the simple reason that we are running out of people to fill jobs. November unemployment was only about 2.4 million. That's scraping the bottom of the barrel. So, if we don't hit a bump created by some sagging in business we are bound to hit a bump of sorts as business is levelled out by hitting the ceiling imposed by manpower and materials.

When the bump comes it is certain that cries of alarm that the great postwar boom is about to pull apart at the seams will not be far behind. A decline or easing in sales and production will be translated, in the traditional chain reaction manner, into reduced investment in new producing facilities; both will be translated into increased unemployment, and we shall be assured that we are on the skids into the valley of despair.

But the traditional pattern will not prevail. Specifically in the case of automobiles, their purveyors will not sit sadly on their hands while their sales languish. The competitive rigors of the industry do not permit this form of self-indulgence. They will run clearance sales to clean out the lagging 1956 models, if they lag, at the price concessions necessary to do it.

For those of us old enough to have

vivid memories of the time when the purchase of a new automobile was a major act of faith, devotion, and personal finance, a boldly advertised clearance sale of lagging models seems an operation so calloused that it is an affront to a tolerably civilized life. But it is obviously here to stay, and along with it a general use of bold mass merchandising methods including dramatic price cuts. Witness the 30 per cent price reduction on all of its appliances just posted by the General Electric Company.

With their 1956 models sacrificed if necessary, the automobile companies, which are very well heeled financially, will speed up the changeover to the 1957 models, and be off again on a high level of production after a relatively brief break.

Also—and this brings me to the first major tenet of my faith that we have put together a relatively depression-proof economy—the alarms about a chain reaction from decreased sales to a severe cutback in business investment will prove false. American business will stick quite closely to the plans which promise to make 1956 another record-breaking year of investment in new plant and equipment. A controlling reason is that in these postwar years American firms have in dramatic degree adopted long-range planning of this type of investment, and thus introduced a major new element of stability to our economy. Ten years ago only a handful of American business firms had any plans at all for investment in new facilities running beyond the year immediately ahead. Now virtually all major firms have plans extending over several years.

It is one thing, of course, to make plans. It is another and much more binding thing to stick to them. However, there are new and powerful stimulants to stick to the investment plans. One of them is provided by the outpouring of reports on the long-range outlook for the American economy. These reports, based in major measure on the prodigious enterprise of the American branch of the human race in reproducing its kind, uniformly disclose greatly expanded markets over the longer stretch of years ahead. Business firms increasingly gear their investment to these market possibilities rather than to ups and downs along the way.

Another powerful stimulant to business investment is the tremendous outpouring of new products, new machines, and new equipment which our research laboratories are spawning. We are now spending well over $5 billion a year for research and product development of all kinds, or more than fifty times as much as we were spending in the 1920s. I suspect that this is the most dramatic fact about the American economy today, but, at any rate, it clearly makes an aggressive and sustained program of investment in new facilities a basic price of successful survival for many American business firms.

If we can maintain business investment in new producing facilities at a high and relatively stable level we shall, of course, have throttled what historically has been the greatest single generator of destructive business fluctuations. However, business investment is obviously not conducted in a vacuum or comfortably isolated compartment. Hence, over any considerable length of time the stability of investment in new equipment depends on what consumers are doing by way of taking off the products being turned out by the new equipment.

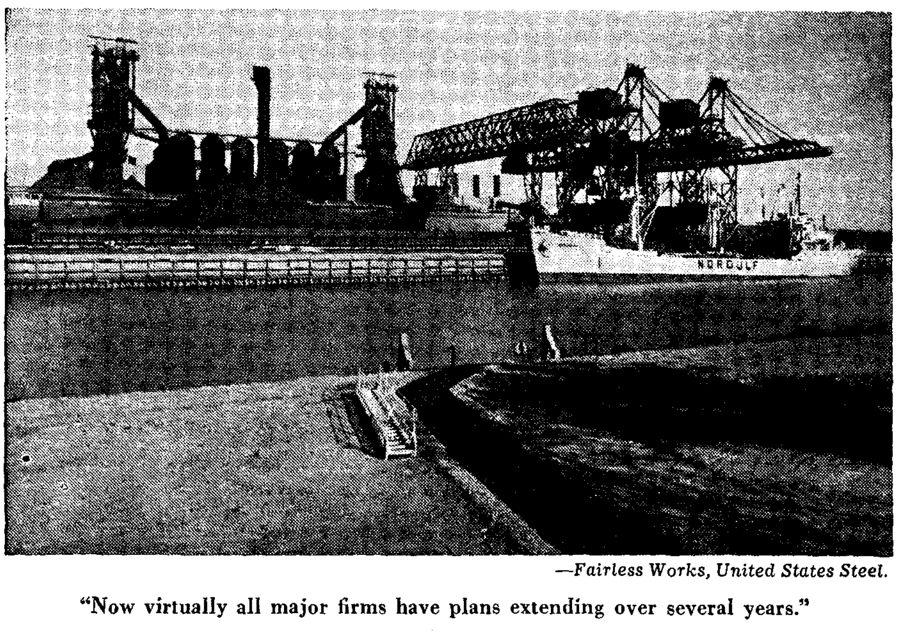
However, a look at the prospects for the consumer segment of our economy, by all odds the largest segment, also is reassuring. Our rapidly increasing population is still driven by a desire to produce a higher standard of living for itself, and has access to what it takes in the way of basic resources to do it. There may come a time, of course, when there will be relevance to the United States in that poignant observation of an East Indian civil servant on the occasion of the birth of his nineteenth child, "Oh, Lord, when will this mischief cease?" But that seems some distance down the avenue of time.

IN the meantime, the nation's money income is both very widely and substantially distributed among individuals as a result of what has been correctly characterized as a revolution in income distribution since the 1930s. In 1954 about 16 million American families had incomes of $5,00C or more. Also, in the form of long-term employment contracts providinc for annual increases in pay, we hav a built-in device to increase the flov of money incomes to individuals Wage and salary increases adde about $14 billion to the incomes c individuals after taxes in 1955, a compared with 1954. And in 195 long-term agreements already pro vide for substantial wage increase By June of this year, the Federal cas budget will not only be balance there will be something left over. necessary to keep consumer incon expanding at a salubrious rate, individual income tax cut of sever billion dollars can be made witho flouting fiscal responsibility. And an economy growing at the rate o economy is growing there is reason believe that this will not be the l opportunity for tax relief.

It is not enough, of course, for cc sumers to have increasing money comes. They must be possessed of urge to spend most of these incor on an expanding collection of go and services. It is at this point t some people fear for the future of economy. After an eight-million p senger car year, and an eight-mil television set year, and a 4.5-mil washing machine year in 1955, t see consumers so surfeited with automobiles, new appliances, f and entertainment that they will as consumers, with deeply distur economic results.

Happily, however, at least from standpoint of keeping our econ running at a high level if not ne sarily getting into heaven, the A ican consumer shows little tend to be jaded by abundance. Impre evidence on this point comes

(Continued on page 53)



—Fairless Works, United States Steel.

"Now virtually all major firms have plans extending over several years."

Some Sober Facts Behind the Search for Oil

by Former Ambassador to Great Britain,

LEWIS W. DOUGLAS

IN recent times some people have expressed the view that the oil industry has been enjoying a fa-
vorable tax position by reason of the provision for depletion. Yet, lrilling for oil has always been
one of the riskiest businesses in he world and is becoming more ıazardous. Here are a few sober acts that face the man who drills or oil today:

He must invest about $123,000 -on the average—in every ex-
loration well he drills; yet *only out of every* 9 of these "wildcat" ells ever produces oil.

And only 1 out of 44 wells finds ı oil field big enough to supply merica *for just 4 hours*. The lds against finding a 50,000,000 ırrel field—enough to supply the S. for about a week—are in-
ədible—966 to 1.

But this is not all. To a great :ent the obvious shallow sands ıere oil might be found easily ve already been tested. Conse-
ently today's wells must be lled to much greater depth at ch greater cost to reach pro-
:tive oil sands. Drilling and ex-
ration costs are about *400% her* than 25 years ago and the 's of finding even marginal pro-
tion are far more adverse.

nd unlike a factory which can luce at a constant rate for ıy years, an oil well dies a little ı day. Finally it stops produc-
altogether—in other words, it becomes "depleted."

As early as 1918 Congress recognized that, with America increasingly dependent on oil, it had to create an incentive so that men would take the unusually hazardous financial risks involved in the search for oil.

Therefore, Congress wrote a depletion provision into the tax law—permitting oil producers to exclude 27½% of the gross income from their oil or gas property in arriving at a taxable income basis for tax purposes. This deduction, however, cannot exceed 50% of the property's net income. And, of course, it applies *only* to oil and gas *production*. Other activities of the industry, such as refining, are *not* subject to depletion.

Lewis W. Douglas has won distinction in virtually every phase of American life. Prior to serving as Ambassador to Great Britain, he was a Congressman, Director of the U. S. Budget, and a college president. Mr. Douglas is now Chairman of The Mutual Life Insurance Company of New York and is the principal owner of the Southern Arizona Bank and Trust Company.

Coal and metal mining—in fact, all "natural resource" industries—have similar tax provisions. Actually, the depletion provision is designed to make up for the inevitable exhaustion of the natural resources man has discovered. And it encourages the costly search for new deposits—needed to replace those that are exhausted. Yet, the provision for depletion is often misunderstood and unfairly indicted.

Experience demonstrates that the national interest has been properly guarded and well served by provisions for depletion. With the depletion provision in effect, America has become the world's largest producer and user of petroleum. Yet we pay *less* for most oil products than most other nations. And, despite record usage, we keep finding more oil than America uses. In a world of wings and wheels, this could well provide the balance of power. Certainly it is the necessary support for an economy that runs largely on petroleum products.

We can be thankful for the incentives that have encouraged men to brave the heavy risks of loss and to continue the increasingly difficult search for new oil fields which alone can replace the old fields that are being used to power our country.

is one of a series of reports by outstanding Americans who were invited to examine the job being done by the U. S. oil industry.
'iis page is presented for your information by The American Petroleum Institute, 50 West 50th Street, New York 20, N. Y.

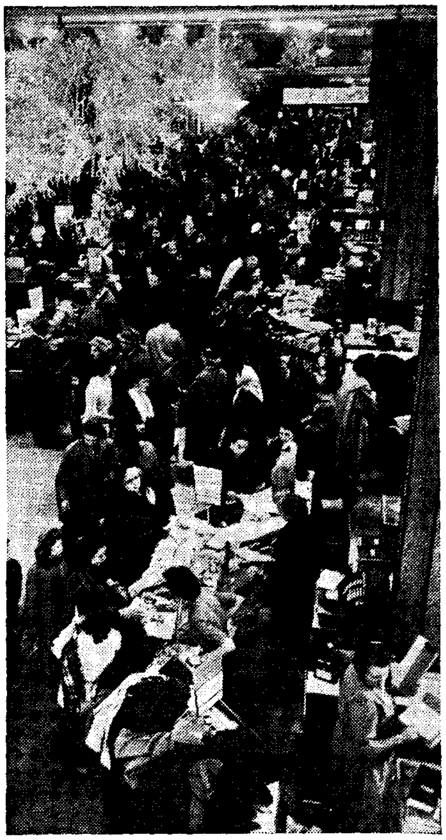
Prosperity Is no Panacea

By LEO CHERNE

THE next ten years already assure so fantastic a development of luxury that an economic paradise, a technological Eden seems guaranteed. Many are convinced that man's endless, fruitless search for the panacea has come to an end. Health, prosperity, are about to be fabricated by a machine.

We have learned much about the nature of man during these last thirty years. It has been disillusioning. Were the promise for the future to depend only on the fallible and destructive nature of man, we would enter these ten years anxious and despondent. Even in this age of atomic danger, as we luxuriate in our prosperity, we have all but forgotten that behind the infallible push-button stands a fallible man.

It has taken twenty years for us to forget the Great Depression. Almost a majority of the American people never experienced it. We enjoy the highest standard of living anyone has ever attained. A statute assures us the continuation of full employment. We are confident, careless, pleasure-bent.



—*Macy's New York.*

". . . a restless interval of change."

But our view of the future, in all but its physical promise, is unreal. The problems before us are monumental. The difficulties will not yield easily nor is there even a significant awareness that difficulty threatens.

Most of the unanticipated problems will flow from the nature and momentum of the changes already in process. The United States is in the midst of its most restless interval of technological change and physical expansion. Between electronics and chemistry, automation and atomics, a short ten years will bring a new world. In 1965 the United States will have 15 per cent more people. Our productivity will jump by 35-40 per cent. Our personal income will be above today's fabulous levels by another 30 per cent. Our output as a nation will probably increase by the staggering total of one-half of everything we now turn out. The more than $500 billion economy will change the patterns of our living, the shape of our homes, the contours of our cities, the relative influence of our states, our concept of leisure, the numbers who will be idle but not indigent.

These ten years may shake the foundations of our educational institutions and add new stress to the seams of family life. The change itself will come so fast and we shall be running so hard to catch up with it that we may find little time to enjoy our gains —just when "leisure" time will be the dominant American preoccupation.

Among the world's peoples only the Germans are less suited for idleness than we. Not to work in Germany is to be sick, sick in soul and spirit. Not to work in America is to sin. It will take more than these ten years to throw off the remaining Calvinist compulsions that govern us. The Puritan conscience of America may be subdued but it will not be suppressed at Miami's Fontainebleau, or on the million pleasure boats crowding America's lakes and waterfronts, or on the long line of more powerful cars jammed up behind each other as the road hobbles the horsepower.

The varied colors that will flow from our television sets will not obscure the fact that almost half of America will be watching the same program at the same moment. Our newspapers will grow more powerful as they grow less numerous. We shall avidly buy the 200 pages that promise the power of uniform thinking, positive thinking, relaxation, a peaceful mind, a safe eternity, while enjoying success, a beautiful body, and a serene spirit. The cortisones will mask our fatigue, the antibiotics will cure our diseases, and the tranquilizers will suppress our anxiety.

THIS is a jeremiad. This attempt at prophecy seeks to look into the shadowed corners of a decade of fabulous physical promise. It is, believe it or not, economic prediction. Each of these problem areas exists only because of the economic probabilities. A look at them may well prove useful.

This decade will bring a climax in the trend toward bigness—bigness in business, in government, and in unions. The economy of the next ten years offers no comfort to the small merchant or the cash-hungry independent manufacturer. The physical progress will be the pay-off for the greatest investment in product and market research ever made by private enterprise. But research is a big company tool and the new technology will prove to be a big company pay-off.

It will, of course, be possible t rent the new electronic brains. Th small businessman will be able to bu even as little as an hour of the com puter's time. But he will not be abl to rent the executive training an experience that tell you when to see it, or the professional skill that tel you how to apply it.

The assembly line introduced a ne concept of manufacture. More in portant, it introduced a new size. B the logic of mass manufacture coupl with the new techniques of "autom tion" will much more than change t concept or increase the size. They w alter the very nature of busine operation. The high cost of automa machinery does not permit an ebb a flow of production based on the va able of momentary sales. It forb the eight-hour shift and closing ti Man can be laid off, but the n chines must grind on if they to earn their keep. This new e nomic phenomenon will not per the luxury of recession, the disa of depression. The very nature capitalism, the relation of industr government and to unions, must flect these facts.

Under the pressure of enter that cannot stop, planning—the de word of the New Deal—becomes dispensable for all society. This alone presents problems of m magnitude.

Some who would avoid bigne government at all costs neverth count on government to prevent