

The Economic Club of New York

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The Honorable Arthur H. Motley  
President, Chamber of Commerce  
of the United States

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Economic Growth Is Not for Sale

Economic growth, and more economic growth, are on everyone's lips. Faster growth has become a fetish. To some the dominant goal is "More growth at all costs".

Perhaps this is harmless. But growth is not costless. This we need to know and understand.

Growth is a GOOD THING. Let's not even question that. Let's take it for granted.

I want to do only one thing today: Explore with you THE COSTS OF ECONOMIC GROWTH.

It is not free. Indeed, it is not for sale.

I do not pretend to be an economist, but I read much of what economists have to say. If I read them rightly, they tell us that economic growth requires a favorable political and economic climate. This is understandable.

You could buy the finest nursery stock from the most reliable nursery dealer in the community. But if the soil, water, temperature and even the atmosphere are not conducive to your particular plantings, natural growth will not follow. Your effort may be wasted. The plant may die. It may

be scrubby and remain a mere dwarf. This is so obvious that I apologize for even mentioning it. But it may impress us with the economic and the political facts of life.

### OTHER GOALS

More growth at any and all costs is not our goal. We have other important goals, as thoroughly analyzed in the recent report “THE PROMISE OF ECONOMIC GROWTH”. (Chamber of Commerce of the United States). Among these goals are economic freedom reasonable economic stability including the integrity of the dollar and minimizing needless insecurity.

While these goals may work in harmony, to some extent they may also conflict. The possibility of this conflict among our goals is not well understood. We want an expanding economy with adequate employment and investment opportunities. But we want not only to hold, but to deepen, the foundations of economic freedom, free competitive enterprise. Free competitive enterprise is not a mere slogan. Too often it is viewed as something for the businessmen. It is much more.

Free enterprise involves the freedom of consumer choice, with ever-widening choices. It embraces the freedom of occupational choice. It includes freedom to work more and longer hours, with more goods and services or to take the rise in income in the form of more leisure. Free enterprise also permits a choice of more consumption or more savings and investing. To repeat, free enterprise is not a mere slogan. It is the heart and soul of economic freedom for all. It

maximizes human freedom and minimizes force and coercion. It avoids monopoly. It enlarges free choices on a broad front. No, it is not just for the businessman. It is for the consumer, the employee, the saver and investor, the citizen. It is the ideal for which we strive, in spite of some lapses at times, lapses which gain disproportionate publicity. The proof is in the eating; our free enterprise system has given us the greatest growth, with the gains broadly shared by all groups, in the history of mankind.

Ranking at the very apex of per capita income in the entire world, it may be that we have attained the rate of economic growth that we really want. Sure, many people want and could do with more. But since growth is not costless, and since there are other key goals, perhaps our recent rates of growth are largely satisfactory about what people, as a whole, want.

Let's note an example. More leisure has a high value too. Indeed, when a new labor contract is signed we hear much of the social gains of a shorter work week, more paid vacation and more paid holidays. These are highly prized, but they have a cost. Paying people for not working; increases costs. A decline in work effort and hours worked may well reduce real output. It may slow down growth. It may weaken our international balance of payments position and worsen our gold losses.

In short, more leisure may be the enemy of faster growth. Economic growth is not for sale, it is not free. Yet, leisure too, has a high priority. We need the intellectual and emotional maturity to

see and understand that, in spite of the high premium we place on more growth, we also have other goals and other values which may have high priority. If we overstress one goal we may sacrifice others and, indeed, end up losing even that one goal.

Deficit spending and loose monetary and fiscal policies, to take another example, may stimulate faster economic growth for a spell in the short run, but such policies may end in a bust with short run faster growth followed by a no growth period or even a decline. It may lead to public pressure for wage, price and direct consumer controls, thus sacrificing our freedom goal. In the longer run, therefore, irresponsible fiscal and monetary policies may end up with less total growth over the period.

Such unsound policies may not only create instability but also insecurity and, as noted before, both stability and security are among our economic goals. Indeed, economic growth is not for sale. It must be earned in the context of all our economic goals and indeed other national goals including national security.

Let's look at another example. Growth involves change. Growth, as we view it, does not mean just more of the same. It means new things and more real income per capita. It also means that somebody gets hurt. The coming of the automobile made obsolete the horse and buggy, the livery stable and the harness maker. This meant new opportunities, but at a cost, a cost to the workers and investors in the older forms of transportation.

## ROADBLOCKS TO GROWTH

Today the very people who complain of slowed up growth often also will insist on roadblocks to innovations, to cost reductions and to more efficient ways of doing things. Many savings, for example, would grow out of railroad consolidations but some local communities and some union officials are saying, in effect, “Consolidate all you like, but don’t abandon any track or single train, don’t close even one freight or passenger station and don’t eliminate a single job”.

The very heart of economic progress consists of getting more output per unit of input but if we are not willing to reduce costs, or eliminate waste and cut out needless effort, then the cry for more growth is false, hollow and dishonest.

The students of growth have been remiss in one respect. Never have I seen any attempt made to add up and evaluate all the roadblocks to higher real income due to unwise public policies, due to featherbedding, resistance to change and the refusal to liquidate uneconomic work practices. If we are serious about wanting more growth, let’s not be slow in assessing obsolete private and public practices, including government subsidies to commodities and industries which can’t stand on their own economic feet. The same goes for featherbedding wherever it is found, and all uneconomic way of doing things.

More growth can be had if we want it enough to smoke out and remove the roadblocks to it, but if we are serious about wanting more growth, we must recognize that faster growth will mean faster and disturbing structural changes in our economy. It means obsolescence of products, whole industries, skills and jobs. It implies a willingness to put a premium on change and not subsidize the status quo.

There is not much humaneness in a lot of the talk about federal grants and loans to depressed areas, which may only immobilize the victims in the relative misery. There is nothing humane about farm programs which keep more people down on the farm than are needed. Those of us, our fathers and grandfathers, who left the farm, improved ourselves; we sought and found better opportunities. Our greater productivity, furthermore, enriched others. If such shifts from overmanned trades and occupations aren't the heart of more growth, what of all this talk about our own foreign aid to under developed countries? More growth is not for sale. Let's get the anti-growth cobwebs out of our minds and put our shoulders to the wheel of progress.

### LABOR FORCE GROWTH

Regardless of what happens to economic growth we face a growth in the number of people looking for gainful employment. This labor force growth will be some 50% higher in the 1960's than it was in the 1950's. These youngsters are already here. Today they are in school. Tomorrow they will be knocking at your door looking for jobs. Are we ready for them? If they

are satisfied to get on someone's payroll and there aren't more payroll makers, rising unemployment is probable. How many of our schools, at any level, urge and train students to become self-employed or to become job makers? Not many.

What we are doing about public policy which makes it continuously more expensive to put men on the payroll? What of higher wage and salary rates, with more fringe costs, all of which must be recovered in the sales price of your product or service? What of the proposed high minimum wages which will tend to spread through your entire wage structure? If wages can be too low, labor costs can also be so high that they lead to disemployment, slow growth or no growth.

The depression and wartime deficit spending fed the fires of inflation. This led to the bad habit of annual rounds of wage lifting. Let's stop inflation and abandon the automatic annual wage increases. We can spread more purchasing power to more people by giving better values to all consumers including employees. This will foster more growth.

### TAX HURDLES

The United States economy is still operating on the basis of near wartime tax rates. Not only are the tax rates too high, the tax structure is anti-growth oriented.

While the 1954 depreciation changes have been helpful, we still have the most backward depreciation policy among all the major industrial countries. Even some of the semi-socialist countries are ahead of us. The average age of machinery and equipment has been rising since 1955. This slows down productivity and growth. In many industries we are far behind Japan and European countries. We should put a high premium on modernizing our plants and equipment. Greater freedom to charge off the cost of property would feed into the business till the cash to modernize. This would underwrite faster replacement and faster economic growth.

Our income tax rates, both individual and corporate, are too high to encourage growth. The United States Treasury relies on income taxation for 80% of revenues whereas most countries rely more heavily on excise and turnover taxes. Russia, for example, is in the process of abolishing all income taxes.

Today governments take one third of our income. This puts a high penalty on extra effort, particularly innovative and risky ventures, where the chances for new economic growth are strongest. This high tax puts a premium on effort to earn income which is tax free or taxed at lower rates.

Uncle Sam is more than a 50% partner in your corporate earning. For the corporation one might say that July 4<sup>th</sup> is, indeed, Independence Day. Every corporate business decision today is of

necessity a tax decision. The businessman has to ask himself - how will taxes affect my costs, my sales and net income?

This high corporate tax rate, even if it tends to be shifted in the long run to the consumer, acts as an umbrella protecting existing investment, by postponing new investment. Any new investment, to be justified under these high tax rates, must show high prospective results before it is undertaken. This slows down new investment. It retards innovation and economic growth.

New growth is not for free. It is not costless. It is not for sale but it has a price. The price is a tax level and tax structure which would place a high premium on new discovery, innovation, new products and services and new investment. Instead, we continue to tolerate penalties upon these growth possibilities.

How are we going to get the corrective steps we need? I have a few suggestions for you:

The National Chamber has three major action programs. Each was designed to help us become more effective and articulate in these matters relating to growth.

The older of these programs goes by the name of an Economic Understanding or an Economic Discussion Group Program.

This consists of seventeen pamphlets with tape recording for each, and other teaching aids. A few men, or women, perhaps a dozen or 18, get together once a week and discuss the mysteries of money, the control of the money supply, the economic laws which govern the setting of prices and wages and profits, the factors that should be kept in view in the field of taxation and spending and other such topics. This program has been highly successful. The purpose of this program is to develop in every community and in every plant a few well informed, articulate, persuasive opinion leaders who will contradict error and help deepen understanding. It is a self-improvement program. It is fun, and I would strongly urge that if you have not launched this program, you write to the National Chamber and get information about it.

A more recent development is, of course, our Political Action Program. You've heard and read much about it. I will not at this time go into details to explain it except to point out that it is patterned largely after our Economic Understanding Program and consists of 9 work sessions. It is designed to help you and your associates to become active in the party of your choice. It is completely impartial, non-partisan. It is based on the idea that any effective accomplishment must rest on your inner resources – your know-how. It shows how the political parties are organized, how they raise funds, the roles of political clubs and how you become active at the precinct and other levels in the party of your choice. It's a study-discussion-action program.

The third program is Congressional Action. It was designed to equip businessmen to communicate effectively with their Members of Congress on issues of importance to business

and to the country. The Chamber offers special services to member companies and associations which want to set up legislative committees. The services include information on how to organize a legislative committee and how to use the informational material regularly provided by the Chamber.

The next time you hire or promote an executive in your organization and give him his assignment, specify that among his other duties, he is expected to devote a certain amount of time and energy to public affairs, local, state and national. Your aim should be to recruit and elect the best qualified candidates for public office, to study public issues and communicate your findings to legislators and government bureaus. I need not spell out the details. We live and operate surrounded by hundreds of government bureaus. All governments together will absorb over \$150 billion this year. The government sector has not been starved but the tax dollar has been misspent. Unless you and I are willing to devote, on a regular basis, part of our time to improving the political sector of our economy, our growth will be retarded and governments will be knocking at your door to take out a still bigger slice of your earning.

I would also like to make a suggestion concerning your communication effectiveness in getting through to the politicians. The typical politician is not much concerned with you as a business or professional man. There are just too few of you for him to be much concerned.

The politician is interested in votes. Raymond Moley once said that he had become convinced by no meager experience that the men who make our laws are seldom convinced by logic, however true; by statistics, however voluminous; or cocktail parties, however resplendent. Their fundamental problem is not education, nor thirst, it is votes. How many votes do you have? How many can you deliver? When contacting a politician you must first establish your credentials with him in his terms, not yours!

But will he listen to you in a way that will count? You need to impress him in your own way, that when you and your business are hurt, a lot of other people are hurt. You need to show him that when he acts in a way that hurts you and your business, he is hurting your employees. Count them for him. He will then understand. He may be hurting your shareholders. Count them for him. Again he will understand. Your customers, count them for him. Your suppliers and their employees, your small business associates. If he thinks your point of view is self-centered and not broadly gauged, he will listen while you have his ear. You may be impressed with his apparent interest but you may not notice that what you said to him went right out of his other ear.

But when he once understands that the welfare of his mass constituents is tied in with the welfare of your operations, he will listen and will remember. The politician is interested first, last and always in one thing – votes. Always remember that whatever you may think of any particular politician, at least he can count!

## CONCLUSIONS

In concluding, I end where I began. Growth is not free. It has its costs. It must be earned.

More and faster growth is complicated by the fact that we as a people have other goals – economic freedom, more leisure, economic stability including a stable dollar and reasonable economic security. To some extent these goals may be in conflict, one with another, but we have injected or allowed to develop needless roadblocks to faster growth.

We have become surrounded with a multitude of government rules and regulations to the point where every move requires that we call in our lawyers, accountants and others. Our elbow room has shrunken to the point where innovative growth has become stifled.

We are spending too much tax money. Government's dipper is too large and dips into the till too often. By restricting government to really essential activities and promoting more cost-consciousness in government, taxes could be cut. Indeed, there is good reason to believe that lower tax rates and an improved tax structure would encourage faster growth. Then within a few years the government itself might reap more revenues from such tax reform. We can have more growth if we really mean to have it. Slogans and target-setting won't resolve the issues.

Identifying and then removing the roadblocks will pave the way. Growth and development is not a simple thing. It has costs and requirements. It calls for proper blending and balancing, just as your particular nursery stock calls for the right soil, proper watering, temperature and atmosphere.

We know what needs doing. Have we the courage and determination to become active, and on time, before more damage is done to our free way of life which has made our scale of living the envy of the world?

End of Remarks