SUMMARY
OF
REMARKS
OF
O. GLENN SAXON
ON
JUNE 12, 1957
AT THE
ANNUAL MEETING OF THE FRICTION MATERIALS STANDARDS INSTITUTE, INC.

THE SECOND HALF OF 1957 WILL, IN GENERAL, BE BETTER THAN THE FIRST HALF, DESPITE THE USUAL SEASONAL LET-DOWN DURING THE SUMMER MONTHS. NO MAJOR STRIKES (SUCH AS THE TWO MONTH STEEL STRIKE, LAST YEAR) ARE LIKELY.

NATIONAL INCOME - CONTINUES TO RISE AND IN 1957 WILL REACH ANOTHER ALL-TIME RECORD LEVEL AT ABOUT $430 BILLION - AN INCREASE OF BETWEEN 4 TO 6 PERCENT OVER LAST YEAR. HOWEVER, AS IN 1956, ABOUT HALF OF THE OVER-ALL INCREASE WILL RESULT FROM PRICE INCREASES, WITH THE CONSUMER INDEX RISING BETWEEN 3 AND 4 PERCENT.

INDUSTRIAL PRODUCTION - DURING THE FIRST HALF YEAR WAS CONSISTENTLY HIGHER THAN IN THE SAME PERIOD IN 1956. AFTER REACHING AN ALL-TIME PEAK IN DECEMBER, IT LEVELED OFF. IT WILL, BECAUSE OF THE STEEL STRIKE LAST SUMMER, BE HIGHER DURING THE THIRD QUARTER THAN IN 1956, AND SHOULD RISE TO THE HIGHEST LEVEL OF THE YEAR IN THE FOURTH QUARTER.

AUTOMOBILE PRODUCTION - WAS LOWER THAN EXPECTED IN THE FIRST QUARTER, BUT HAS PICKED UP IN THE SECOND QUARTER AND WILL HAVE LESS-THAN-SEASONAL DECLINE. IT SHOULD RISE SHARPLY IN THE FOURTH QUARTER.

STEEL PRICES - WILL RISE IN JULY ABOUT $8 TO $10 PER TON. IN FACT, THE ANNOUNCED INCREASE AVERAGED ONLY $6 PER TON. THIS MAY MEAN A FURTHER INCREASE IN THE FOURTH QUARTER, WHEN THE INDUSTRY WILL BE AGAIN OPERATING CLOSE TO ITS (NEW, EXPANDED CAPACITY).

INDUSTRIAL EXPANSION - CONTINUED IN THE FIRST HALF YEAR AT A RECORD LEVEL AT THE (ANNUAL) RATE OF $37 BILLION, COMPARED WITH $35 BILLION LAST YEAR, WITH INDUSTRIAL CONSTRUCTION AT A NEW PEAK.

HOME CONSTRUCTION, HOWEVER, IS DOWN FROM 10 TO 13 PERCENT IN MOST AREAS, DUE PRIMARILY TO HIGHER RATES FOR MORTGAGE LOANS.

CERTAIN INDUSTRIES - ARE LEVELING OFF, WHILE OTHERS ARE REACHING FOR HIGHER LEVELS OF PRODUCTION - A SORT OF "ROLLING ADJUSTMENT" THAT IS NECESSARY, AS OVER-PRODUCTION IN CERTAIN LINES REQUIRES A SLOW-DOWN TO REDUCE STOCKS - WITH OR WITHOUT PRICE REDUCTIONS. THIS IS A HEALTHY CONDITION.

CONSUMER SPENDING - IS ABOVE LAST YEAR, WITH PERSONAL INCOME RISING DUE TO WAGE INCREASES, DESPITE A SHARP DECLINE IN OVER-TIME PAY IN INDUSTRY, ESPECIALLY THOSE ENGAGED IN DEFENSE CONTRACTS ON WHICH OVER-TIME HAS BEEN SUSPENDED BY THE DEFENSE DEPARTMENT.

SAVINGS - BY THE PUBLIC ARE INCREASING UNDER THE IMPETUS OF HIGHER INTEREST RATES.



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INTEREST RATES - CONTINUE HIGH AND ARE NOW AT LEVELS THAT PREVAILED IN 1928-29, EXCEPT IN THE PERIOD OF THE STOCK MARKET CRISIS OF 1929. THEY WILL CONTINUE HIGH FOR SOME YEARS. IN FACT, THEY MAY RISE MODERATELY THIS YEAR, BUT ARE NOT LIKELY TO GO MUCH HIGHER. IT SHOULD BE NOTED THAT INTEREST RATES IN THE UNITED STATES ARE STILL ONLY SLIGHTLY MORE THAN HALF THOSE PREVAILING IN EUROPE AND GREAT BRITAIN TODAY, WHERE THE CENTRAL BANK RATES NOW RANGE FROM 5 TO 6 PERCENT IN COMPARISON WITH THE U. S. DISCOUNT RATE OF 3 PERCENT.

INFLATION - IS OUR MAJOR THREAT. SINCE 1947 THE CONSUMER PRICE INDEX HAS RISEN AT AN AVERAGE ANNUAL RATE OF 3-1/4 PERCENT. IF COMPOUNDED, THIS WOULD MEAN A DOUBLING OF THE COST OF LIVING ABOUT EVERY 18 YEARS - IN OTHER WORDS, A 50 PERCENT DECLINE IN THE PURCHASING POWER OF THE CONSUMER DOLLAR. BETWEEN 1940 AND 1952 THE STEADY YEAR BY YEAR INFLATION OF THE U. S. ECONOMY WAS DUE TO UNBALANCED FEDERAL BUDGETS AND MONETIZATION OF THE FEDERAL DEBT BY SALES OF U. S. BONDS TO COMMERCIAL BANKS, WHICH CREATE BANK-CREDIT MONEY BY MERE BOOKKEEPING ENTRIES - WITHOUT CORRESPONDING INCREASES IN GOODS AND SERVICES. THIS PROCESS DILUTES ALL OUR CURRENCY AND RAISES PRICES. THIS MONETARY INFLATION SWEPT OVER THE ENTIRE WORLD DURING AND AFTER WORLD WAR II. SINCE 1950, HOWEVER, IN MOST OF THE WESTERN WORLD, THIS PROCESS HAS BEEN STOPPED (NOT UNTIL 1952 IN THE UNITED STATES). IT DESTROYED THE PURCHASING POWER OF MOST EUROPEAN COUNTRIES - WITH DESTRUCTION OF ALL SAVINGS IN ALL FIXED INVESTMENTS.

THE FEDERAL BUDGET - THOUGH BALANCED SINCE 1953, IS STILL MUCH TOO HIGH -AS ARE OUR INCOME TAX RATES AND OUR PUBLIC AND PRIVATE DEBTS. IT MUST BE HELD DOWN, AS WELL AS BALANCED, IN ORDER TO REDUCE TAX RATES AND DEBTS SO THAT WE WILL HAVE RESERVES TO CALL UPON IN CASE OF FUTURE EMERGENCIES.

GOVERNMENT SPENDING - AT PRESENT LEVELS IS THE MAJOR INFLATIONARY FORCE BOTH HERE AND ABROAD AND MUST BE CUT BACK, IF PRICES AND LIVING COSTS ARE TO BE STABILIZED AND MONETARY INFLATION ENDED. WE MUST POSTPONE MANY USEFUL PUBLIC PROJECTS UNTIL THERE IS NO LONGER A SHORTAGE OF MONEY, MATERIALS, AND EVEN LABOR FOR INDUSTRIAL AND OTHER PRIVATE SECTORS OF OUR ECONOMY.

THE WAGE-PRICE INFLATIONARY SPIRAL - IS AT PRESENT EVEN MORE OF A THREAT TO OUR SOCIETY THAN MONETARY INFLATION. WE ARE NOW IN OUR 12TH YEAR OF ANNUAL WAGE INCREASES AT RATES FASTER THAN INCREASES IN EITHER THE COST OF LIVING OR PRODUCTIVITY. THIS PRESENTS A NEW PROBLEM TO THE NATION AND TO THE WORLD. IT WILL BE BROUGHT UNDER CONTROL ONLY WHEN CONGRESS, UNDER PUBLIC PRESSURE, REGULATES OUR LABOR MONOPOLY (AS IT DID OUR INDUSTRIAL MONOPOLIES IN 1890).

THE U.S. DEPT. OF LABOR HAS JUST RECENTLY RELEASED A PRODUCTIVITY STUDY THAT BETWEEN 1902 AND 1956 OVER-ALL PRODUCTIVITY IN U.S. INDUSTRY INCREASED AT AN ANNUAL AVERAGE RATE OF ABOUT 3.2 PERCENT. IN THE YEARS, 1902-1945, WAGE RATES OR UNIT LABOR COSTS KEPT PACE, MORE OR LESS UNIFORMLY, WITH PRODUCTIVITY GAINS. IN THE 1920'S THEY ROSE LESS SLOWLY THAN PRODUCTIVITY. HOWEVER, SINCE 1947 REAL (MAN-HOUR) PRODUCTIVITY OF PRODUCTIVE SHOP WORKERS IN ALL MANUFACTURING INCREASED AT AN AVERAGE ANNUAL RATE OF 3.5 PERCENT. DURING THIS SAME PERIOD, HOWEVER, AVERAGE HOURLY EARNINGS (EXCLUSIVE OF FRINGE BENEFITS) ROSE AT AN AVERAGE ANNUAL RATE OF ONLY 7.1 PERCENT. IN THE STEEL INDUSTRY THE INCREASE (WITH FRINGE BENEFITS INCLUDED) ROSE AT AN AVERAGE ANNUAL RATE OF 8 PERCENT. MEANWHILE, BETWEEN 1947 AND 1956, THE WHOLESALE COMMODITY INDEX ROSE ONLY 27.6 PERCENT AT AN AVERAGE ANNUAL RATE OF ONLY 3.2 PERCENT.

THESE DATA SHOW THE GRIP OF A LABOR MONOPOLY ON THE COUNTRY. IF ALLOWED TO CONTINUE, IT WILL WRECK SOME INDUSTRIES (OR SOME COMPANIES THEREIN) OR WILL EVERY 18 YEARS CUT THE PURCHASING POWER OF THE DOLLAR AND ALL FIXED INVESTMENTS IN HALF.

UNTIL RECENTLY, IN EUROPE AND GREAT BRITAIN, LABOR COSTS HAD NOT RISEN AS RAPIDLY AS HAD PRODUCTIVITY SINCE 1945. BUT, NOW EUROPE IS THREATENED BY THIS SAME TYPE OF WAGE-PRICE INFLATIONARY SPIRAL.