

Economic Developments of Significance to Attorneys

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ECONOMIC DEVELOPMENTS OF SIGNIFICANCE TO ATTORNEYS*

AUSTIN KIPLINGER**

The economic forecaster has at least one thing in common with the lawyer: both try to produce certainty out of uncertainty. In this particular case, my remarks are not in any sense an attempt to present a detailed analysis of our economy. They are, rather, an attempt to highlight some trends in the American economy as they appear to my staff and myself at the present time.

In any consideration of business prospects, keep in mind that neat adjectives and catch phrases are seldom adequate to present a true picture. "Good" and "bad," when applied to business, mean different things to different people. Furthermore, there is no such thing as a single indicator of business prospects. All pertinent factors must be considered: spending, employment, industrial production and capacity, corporate liquidity, stock yields, profits, foreign trade, and many others.

To start with, it is well to remember that the economy is made up of four basic kinds of spending: (1) government spending; (2) consumer spending; (3) capital goods spending by business; (4) foreign spending.

Government spending, despite budget cuts and some popular belief to the contrary, is still rising. During the last fiscal year, it totaled 63.9 billions of dollars. In the present fiscal year, it will total 73 billions. Prospects for the next fiscal year indicate that it will probably reach 74-75 billions of dollars. Defense spending alone is, at the present time, running nearly a billion dollars a week. For the first six weeks of the present fiscal year, it totaled 5.8 billions of dollars. Even with the tapering off that is expected, it will still be running at a high level.

Consumer spending, as indicated by a Federal Reserve Board study, is still expanding.

Business spending for capital goods is entering a leveling-off period. It appears likely that a peak will be reached next year, with a possible decline thereafter. Up to now, we have been under the influence of the low birth rates of the 1930's and the resultant emphasis upon labor-saving capital goods. Another sub-factor to be considered here which will operate to preclude a serious decline in capital goods spending is the insatiable demand for American goods

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abroad. The people of the world want a better standard of living and American goods can satisfy this demand.

There are, of course, a number of negative factors in the business picture at the present time: (1) Inflation is still with us. It does not appear that there will be any reversal of the Federal Reserve Board's tight money policy in the near future. (2) Overcapacity persists as a problem in many industries — especially paper, steel and aluminum. (3) The Securities Exchange Commission reports corporate liquidity as being at its lowest point since 1939. (4) Stock yields are low, but it should be noted that stocks are, at best, a questionable measure of business activity, because of the extent to which they are affected by the many psychological factors operating in the market. (5) There has been a distinct squeeze on profits. The Department of Commerce preliminary estimate of profits before taxes for this fiscal year was 46.5 billions of dollars. This has recently been revised downward to 43.9 billions. The present estimate of profits for this year, after taxes, is between 23 and 21.5 billions of dollars.

Opposing these negative factors are some distinct strength factors in our economy: (1) The pay-off of instalment debts is rising and this should release some funds for purchases of new consumer goods. (2) The government road program, off to a slow start, is beginning to catch up. (3) The need for, and resultant amount of, school construction is greater than ever. (4) The market for American exports is large, as previously indicated, due to the desire of other countries for a better standard of living. (5) We are still experiencing a relatively tight labor market and this continues to encourage investment in labor-saving machinery.

Tax prospects for the coming year appear to be mildly favorable from the viewpoint of the taxpayers. A tax cut is likely, but its size will make it a relatively insignificant one — only 1-1.5 billions of dollars, due to lack of a larger surplus in the Federal Treasury.

What will be important about this cut is the changed legislative viewpoint which it will reflect. There has been a growing realization of the economic motivation of taxes among legislators, and this, we feel, will result in the next cut being scaled all the way up to the top brackets. High-bracket taxpayers will benefit from it as much as will low-bracket taxpayers. Accompanying the cut there will probably be a policy of more vigorous enforcement of the Internal Revenue Code and more attempts to close loopholes and offset the cut in this way.

The importance of foreign trade to our economy is still increasing. The establishment of the European common market may make competition tougher for American firms; but it will also encourage establishment of foreign subsidiaries of American corporations. American industry must rid itself of the conception that it cannot afford

to compete with foreign industry. An example of the undue importance given to foreign competition is the stress placed upon the sale of foreign automobiles in this country. Last year only 120,000 foreign cars were sold in this country, as opposed to 6 million American cars sold.

A question frequently posed is what effect labor's demands will have on the continuing inflationary trend. They will continue to supplement the creeping inflation which we can expect for the next ten years. We are still experiencing a labor shortage. Total unemployment stands at only 3 million and this is not enough to act as a restraining influence upon the economy. An unemployment total of 4 million might provide a restraining influence.

A discussion of business prospects in Wisconsin would not be complete without some reference to the probable effect of the St. Lawrence seaway project. It will certainly exert a generally favorable influence upon business in this immediate Great Lakes area; some shifting of spending between seaway ports will probably result. However, its influence is not likely to be felt in a major way on the national economy.

The trend in federal agricultural programs is toward a commodity approach. We are not likely to ever again have a free market in agriculture; that is, subsidies of some kind are here to stay. It is likely, however, that future farm programs will be more specific. The tendency is away from the old blanket policies and toward specific policies in relation to each commodity group.

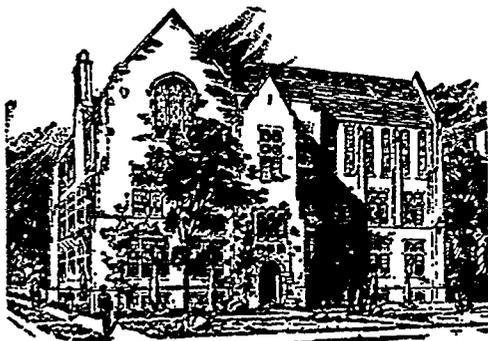
The prospect of war versus peace is one for a soothsayer, not an economic forecaster. However, one point can be noted—the Soviets tried a shooting foreign policy in Korea and it got them nothing. Bulganin and Krushchev then switched to a more subtle foreign policy and this appears to have gotten Syria for them. It is therefore likely that they will continue to pursue the subtle policy and this, at least for the present, diminishes the possibilities of war.

In summation, we foresee continued growth for the American economy, with no serious recession in sight. There will be a higher volume of goods and services produced in 1958 and a growth of 3% in the gross national product. Next year's gross national product will total 448 billions of dollars. We can look forward to the early 1960's as a period of growth which will far outstrip the growth which our economy has experienced since World War II. The one factor which makes this especially likely is what Sumner Slichter of Harvard has described as the "vested interest in change" in our economy. The very existence of most American businesses depends upon their ability to adjust to changes of all kinds. Another point to be noted is the extent to which the social habits of mind of the

American people affect the economy. Within the present generation, there has been much emphasis upon the desire for security of all kinds. These habits of mind appear to run in cyclical patterns and goals of ambition are likely to reassert themselves strongly, if not in this generation, in the next.

Our nation is headed toward a "trillion dollar economy" within twenty years and the best phrase to describe our future is "You ain't seen nothin' yet."

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