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THE SERVICE ECONOMY

Growth in a New Direction

WHILE economists disagree on the immediate future course of U.S. business (*see* State of Business), they all agree on one basic premise: the U.S. economy has undergone such a profound change in recent years that the old tools to measure its size and health are no longer adequate. The biggest sector of the economy is no longer the production of such tangibles as appliances, cars, houses; it is the performance of services, ranging from medical checkups to European trips and cha-cha lessons. In this new economy, there are 33 million employed in performing services compared to only 27 million working at producing things. In the last quarter, consumer spending for goods dropped $2.5 billion, but spending for services continued to rise by another $2 billion.

The well-heeled consumer no longer needs to spend most of his income on food, clothing and other necessities; after he has taken care of these, he still has a large "discretionary" income that he can spend for more goods or for more services—and he has been spending more heavily for services. The problem for economists is to try to chart the effect of this.

To many, the current business slowdown is really an adjustment to the consumer's growing predilection for the myriad new services his money can buy. "This causes dislocations within the economy," explains Sears, Roebuck Chairman Charles H. Kellstadt, "but given the level of gross national product and disposable income, it is no cause for alarm. It simply reflects the fact that our rising standard of living has made us a predominantly consumer-oriented economy. It is not a case of not growing, but of growing in a new direction." In the past five years the real output of services has risen almost 27% *v.* an overall real growth in the G.N.P. of 18%.

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Much of the boom in services is a natural outgrowth of the success of the durable goods producer's assembly lines. Nearly $18 billion was spent on autos and auto parts last year, and U.S. motorists paid another $6 billion for servicing them. Nevertheless the prospect of consumers' spending more and more of their money for green fees and plane rides instead of new cars and bigger TV sets is not a happy one for the makers of durable goods. The auto industry has already begun to fight back for a bigger share of the consumer's dollar spent in garages, *e.g.*, the 1961 Fords have 30,000-mile no-lubrication chassis.

A popular new service does not always undercut production profits; it often creates a market for a new product. The hand laundry is giving way to the self-service laundromats. In four years the number of laundromats has jumped from 4,000 to 25,000. Of 2,900,000 washing machines produced by the industry last year, some 10% were made for self-service stores. The next step may well be dry-cleanomats—and a new market for hard goods. Norge has brought out a coin-operated dry cleaner that will clean eight pounds of clothes for $1.50.

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Today 40¢ of every consumer dollar is spent on services—and statisticians include doctors and dentists as well as doormen in this category. Yet service figures are not given their full weight in the standard measurements of the growth or future of business. One reason is that it is hard to assess an increase in productivity in services. Another is that the real value of a good doctor or a good teacher is hard to translate into dollars and cents. Better measurements are needed, so that the emphasis on production statistics will not bulk so large as to overshadow the fastest-growing sector of the nation's business.

Some economists contend that the service boom is detrimental to U.S. growth, that spending money on haircuts for poodles and diaper service does not add to the base of real wealth. Economist Grover W. Ensley, executive vice president of the National Association of Mutual Savings Banks, takes the opposite view: "Today a large segment of service expenditures goes for medical care and education, which represent investments that are very productive in improving the future output of the nation. Even money spent on beautification of the fairer sex may turn out very productive in the long run."

Even if it could be proved that service spending has caused a slowdown in durable goods sales, it has also had a healthy, stabilizing effect. While cutbacks in production employment come fast in a recession, the service trades usually remain steady. In the 1954 recession, factory employment fell 10% but personal income only 1%. In the 1957-58 dip, employment dropped 9.5%, but personal income and consumer spending each dropped less than 2%, largely buoyed by service spending, which rose more than 3%. With the drop in total personal income thus cushioned, demand picks up all the more quickly. Thus, as service employees and service spending increase, the U.S. economy is likely to become more and more stable, less susceptible to fluctuations in the production sector that have touched off overall economic setbacks in the past.

LABOR

Hari Carey?

For the first time in the postwar era, a major nationwide strike against a giant corporation producing consumer goods was being broken—and by the workers themselves. After two weeks of strike against General Electric, more and more members of the International Union of Electrical Workers were defying Union President James Carey and reporting to work. The action was the result of the steadily hardening attitude of management toward union demands, which first turned up in the auto strike two years ago and in the steel strike last year.

The first big break in the union ranks came in Schenectady, N.Y. at G.E.'s biggest plant, where the 8,700 members of I.U.E. Local 301 had never shown much enthusiasm for a strike. Local 301 stayed out only eleven days, then went back to work. Explained Leo Jandreau, the local's business agent: "Carey is on a suicidal expedition that will weaken the I.U.E. There are no fighting issues in the G.E. strike."

Carey scathingly denounced Jandreau as a "Judas," got the union's conference board to agree to give him another week to reach a settlement with G.E. One week more was all the longer that some local chiefs thought they could keep their members out. Workers at the Bridgeport, Conn. plant had already returned; Pittsfield, Mass. was tottering, and Burlington, Vt. started action to declare itself independent of the I.U.E.

Carey softened his demands by dropping the key issue of a cost-of-living escalator, but G.E. turned him down. Since 62 other unions within G.E. have accepted its contract proposals, G.E. refuses to modify them under pressure of the big union that went out on strike. Said G.E. Chief Negotiator Philip D. Moore: "Carey is looking for one concession which he can represent as a great victory that he wrung out of the company. He is a master at taking the skin from a gnat and stretching it over a boxcar. Well, he's not going to get a concession from G.E."

More pressure on Carey to surrender came from another quarter. Rather than call a strike, the I.U.E. representatives negotiating a new contract with Westinghouse Electric accepted the company's offer with only a few modifications that did not raise the cost of the total package.

The differences between the Westinghouse contract and G.E.'s offer were slight. At week's end, Carey could hold out no longer. He agreed to end the strike, accept G.E.'s contract proposals which called for an immediate 3% wage increase plus other benefits which would bring an additional 4% in April, 1962.

Getting Together

When the U.S. economy drifts into uncertain waters, labor and management often discover that they share the same boat, find they have much in common. Increasing efficiency to enhance an industry's long-run competitive prospects emerges as a vital mutual interest. Last week represlide so mild could be quickly arrested. W. T. Diebold of the Bell Telephone Co. of Ohio liked the term "high-level stagnation" to describe what is happening to the economy. Myron Silbert of Federated Department Stores called the drop "a mild thing" that will not approach previous downturns. But whatever they called it, almost all of the other business economists contended that the current slide will get worse before it gets better.

William Butler, economist for the Chase Manhattan Bank, who has been predicting a 1961 recession for several weeks, revised his prediction only to add that "it now looks as though the recession is beginning in 1960. It came earlier than I expected." Butler expects no upturn to take place until mid-1961. Robert Adams of Standard Oil Co. (N.J.) assumes "a continued recession in 1961," with the low point to occur next year.

Lower-Level Production. What is braking business? Chief drag is that businessmen, who had been adding to inventories at a rate of $11 billion a year, have stopped adding at all. They are not expected to increase buying in the near future, and, until they do, business will continue to drag along.

Other individual forecasts by the business economists:

¶ Adolph G. Abramson, SKF Industries: Factory shipments will decline to the level of new orders, which are now dropping in the durable-goods field.

¶ Morris Cohen, National Industrial Conference Board: Capital-goods spending will drop "10% at the most" next year, mostly in manufacturing industries. This would be a steeper drop than the 1953-54 recession, but not so steep as in 1957-58.

¶ Oil Expert Adams: Petroleum-products demand will grow only 2% next year, the same as in 1960 and well below the growth of the industry in recent times.

HOME BUILDERS' ROGG
In predicting, they all got burned.

¶ Robert Woodward, Bethlehem Steel: Steel output in 1961 will be about 95 million tons to 100 million tons *v.* 105 million tons this year.

¶ Nathaniel Rogg, National Association of Home Builders: Housebuilding will show "a very moderate" increase in 1961, not starting until the middle or end of the year. Continuing the downward trend of the last 16 months, housebuilding activity in September fell 17% below August.

Most of the economists agreed that the principal force in pulling the economy out of the recession will be an increase in Government spending—no matter who is elected President. They think the recession can be arrested without serious damage to the economy, since some segments have already suffered a downturn, *e.g.*, steel and inventories. In earlier recessions, most of the economic indicators turned down all at once. In addition to Government spending, they see stability in the construction industry, an eventual turnaround in inventories and—perhaps most of all—a rise in consumer spending as the chief forces ready to push the economy upward.

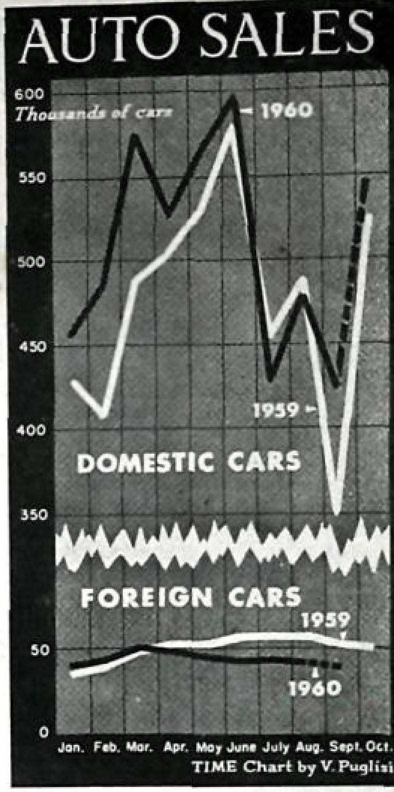
While the predictions were being made, Home Builders' Rogg gave all the economists a pointed reminder that last year they had been overly optimistic in their predictions of boom. Said he: "We had a similar session last year, and we all got burned. Let's hope we are as wrong this year as last year."

The Cautious Customer

"The sole end and purpose of all production," said Economist Adam Smith, is the consumer. Last week U.S. business, watching the consumer like a hopeful but apprehensive parent, might have varied Adam Smith's dictum to read that the U.S. consumer is the master key to what will happen to production—and how much will be sold—in the months ahead. What business saw was a consumer growing steadily more cautious about his purchases, but still buying at a rate that is helping to steady the economy.

Enthusiastic Reception. Detroit reported that its 1961 model-automobile year got off to an impressive start, with daily new-car sales up 7.5% over last year (to 19,539 cars) in the first ten days of October, for the best ten-day rate since June. American Motors reported "the best reaction in our history" to its 1961 cars; Plymouth and Valiant daily sales were reported 30% ahead of last year in the first ten days, the best since their record 1953; Dodge delivered nearly twice as many Darts as it did last year; Ford sold 12,361 Falcons in the ten days, expects to have a backlog of 12,000 to 15,000 orders for its new Thunderbird by the time it is introduced Nov. 10. Good sales were reported by Chevrolet, Studebaker and Pontiac. Industry spokesmen expect that 6,600,000 to 7,000,000 1961 models will be sold (including foreign cars), which would make a good if not spectacular year.

Dealers did not share the good sales equally. Atlanta's Beaudry Ford reported sales ahead of last year by one-third. Man-



hattan's Midtown Chevrolet had "the greatest sales since we have been in business," sold 500 cars in October and expects to sell more than 500 in November. But Los Angeles dealers were disappointed by slower than usual sales, and Tulsa reported new-car sales off 25% from three months ago.

Still Reluctant. The situation in retail sales was even more spotty. A survey of retail trade by Standard & Poor's showed retail sales up 2% over last year for the first nine months, with a 3.8% gain in nondurable goods and a 1.5% loss in durables. Chain-store sales were up 5.4% in September for the second-best gain of the year, and Kresge's reported a 4.5% September sales jump over August for the best September in the company's history. Said Kresge President Harry B. Cunningham: "If we're in a slump, we certainly are working our way out. The pessimistic talk we hear is not right."

In Detroit, retail sales in October are running 4% ahead of last year. Sales of New England retail stores were up 1% from last year in the four weeks ended Oct. 8. Retail sales in Southern California have stopped a steady climb that began early in 1958, and are running about the same as last year, which represents an actual slippage in the face of California's steadily growing population. In the Federal Reserve district covering Texas and parts of Arizona, Oklahoma, Louisiana and New Mexico, department-store sales for the four weeks ending Oct. 15 are down 7% from a year ago.

Despite the good news from many sections, merchants looked at the drops in some areas and kept their fingers crossed.

Galbraith

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