Public and Private Investment

Projected profits and cash flow would appear to be high enough to finance the rising level of business investment contained in the projections. Bert Hickman has attempted to show that the American economy has experienced a declining capital-output ratio over time.[23] In a sense, this may point up the need for accelerated investment in human resources. Theodore Schultz and others have shown that so-called investment in human beings—in such forms as education and training—has been expanding more rapidly than investment in physical capital.[24]

It may well be that the overall capital output ratio (where capital is defined to include both physical and nonphysical investments) has been relatively constant in recent years. This implies, over the coming decade, choices between increased stimulus to business investment or continued acceleration in outlays for education and training and other nonphysical capital investments, in order to meet the economic capacity increases projected here.

Also, recent efforts by the National Aeronautics and Space Administration and the Department of Commerce to accelerate the transfer of defense and space technology to civilian uses may stimulate additional investment for new products. Certainly, the reservoir of commercially exploitable technology is likely to increase during the remainder of the decade. New technical developments may spur businessmen to replace older equipment more rapidly and to purchase equipment capable of producing entirely new products. On the other hand, some innovations may make capital equipment more efficient and thus reduce the amount of investment needed to create any given amount of capacity. The net balance of these offsetting tendencies is hardly clear.

Promoting Consumer Spending and Living Standards

Expansions in social security, private pensions, disability and unemployment insurance, hospital insurance, and medicare may all act to maintain, if not reduce, the consumer's propensity to save on his own account.

It should be recognized that there will likely be strong forces in the remainder of the 1960's which could tend to shift the saving rate toward a lower level. The high birth rates of World War II and early postwar years will be reflected in higher rates of new family formation. These individuals will be in the stage of life when automobiles, household furnishings, and other durable goods typically are acquired for the first time.

Hence, public attention may at some point in the decade need to be focused on the desirability of encouraging private saving to promote private-oriented investment, risk bearing, and entrepreneurship.

[23] Bert G. Hickman, "Investment Demand and U.S. Economic Growth," Washington, D.C., Brookings Institution, 1965, p. 15. My colleague, Hyman Minsky, has pointed out to me that the continued high level of final demand implies reduced uncertainty for the businessman and thus may lower the threshold for considering new investment projects.

[24] Theodore W. Schultz, "Investment in Human Capital," American Economic Review, March 1961.