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STRENGTH AND WEAKNESSES OF THE
UNITED STATES ECONOMY

10 April 1950

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COLONEL HICKEY: At this point in the course in Economic Potential, it seems wise to pause and look at some of the strengths and weaknesses of the United States, and that is what we are going to do this morning. To do this for us we have called upon one of the most prominent economists now in Washington, and it is with great pleasure that I introduce to you, Dr. Howard Piquet.

DR. PIQUET: Colonel, gentlemen: I feel like an old friend coming back here to talk to you people, even though most of you don't know me. It was six years ago that I had a little hand in helping to reorganize this college, and I have been here several times since as a guest speaker. If, after all of this, you people are foolish enough to invite me to come again, you will have to take what you get this morning.

It is a little ambitious, really, to discuss a problem or a subject as broad and as complicated as the economic strength and weaknesses of the United States, in 35 minutes. Even 35 days would be too short. Therefore, I am going to do something that, perhaps, if I were wiser, I would not have the audacity to do. I am going to try to get down to the fundamentals of economic organization before an audience which, although highly trained in its own specialized fields, I presume has not had much exposure to the problems and the niceties of economic philosophizing.

It is analogous somewhat to the situation that would prevail if an architect were called upon to discuss his profession before an audience of nonarchitects. What would he do? Would he describe in technical terms each building brick and the strength of each girder, or would he try to give a picture of that building from a vantage point sufficiently far removed that it would enable the audience to go away with an impression of something?

I am not going to use a single chart or a single statistic, although I have some statistics on hand in case I get stuck later on. I think it would be foolish, impossible in fact, for me to try to give you any factual portrayal of the strength and weaknesses in terms of materials. You have already, I understand, been exposed to lectures and discussions on strategic and critical materials, and all that sort of thing. Rather, I want to get down to the philosophical underpinnings that, in the final analysis, do make for strength or weakness.

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There is, obviously, no need for me to dwell before this audience upon the necessity of being economically strong. We have demonstrated through two world wars in recent history that, as Woodrow Wilson said, "There is nothing stronger than a democracy aroused." So in what I am going to concentrate on in the next few minutes, I am not going to spend too much time on the physical strength aspects.

I think we Americans are prone to overemphasize our strength and to minimize some of the basic weaknesses that are really of major importance in a time of diplomatic stress which we call, briefly, "cold war." It is necessary in discussing anything of this sort that we be completely objective and impartial. We must be able to discuss such things as private property, planning, socialism, and so on, without our feelings getting warmer and warmer; because this building I am talking about, this economic structure, of which we are rightfully proud, is based upon certain philosophical, historical, and evolutionary concepts, primary of which, of course, is the institution of private property. Freedom, individual choice, enforceability of contract--those things are essential to what we call the private-enterprise system.

The things that so often are discussed are the concrete manifestations of these things, such as our steel capacity, or our situation with regard to synthetic rubber, or anything else that has to do with the technology of our economy. Technology, however, rests upon certain philosophical beliefs, upon certain basic foundation stones of our system.

In cold war, unlike hot war, we don't have the incentive for coordinated teamwork that we have in wartime. It was my good fortune, or bad fortune, during the war and just before the war to be mixed up with what later became the War Production Board. In the early days, in 1940, when that organization was still known as the National Defense Advisory Commission, there were some of us who were pretty well convinced that trouble was ahead, but we had a difficult time convincing others that certain things ought to be done with regard to, say, steel. We had difficulty even getting the idea across in White House quarters. It was quite late in the story when a very prominent engineer, Mr. Gano Dunn, issued a report, through the Office of the President, to the effect that there was no need for any considerable expansion of steel capacity. The most ambitious figures that we, as a statistical group, even dared to put on paper, within three years proved to be too conservative because actual production by that time had far outdistanced even our extravagant estimates. But when Pearl Harbor came on 7 December 1941, everything was changed. All the pressure, all the planning, all the work here in Washington did not have one-tenth the effect that the firing on us at Pearl Harbor had. In other words, an aroused democracy can do things. Democracy not aroused finds it difficult to direct its own destiny.

The problem currently confronting us is, how, in a situation of diplomatic tension, do we do those things that would make for strength, in the absence of the usual pressure that comes with actual shooting? In this war of ideas, which cuts across economic, political, and sociological lines, the most important thing we can do--and I feel strongly about this--is to demonstrate not merely that we are strong militarily and industrially--the world knows that--but to demonstrate that we have a way of life, a system, that really works. And if we should encounter within the next few years another serious economic setback known as depression, or recession, or disinflation--it is the same animal no matter what you call it--that will do more than anything else to dissuade the people of the world who have in their power the choice between our way of life and dictatorship, either of the Right or Left, from following our pattern. By example, we must show them. Therefore, it seems to me of the greatest importance that we should--and I am going to use quotation marks, which are usually used when people run out of adequate expressions--"keep our own house in order."

What does "keep our own house in order" mean? Does it mean that we should have make-work programs--WPA's, PWA's, and that sort of thing? Does it mean that we should try to avoid the necessity of that? Or does it mean that we should have some idea as to what our problems are and as to how we ought to solve them? I think it is important that we should know our own weaknesses, or, at least, if they are not actual weaknesses, we should be aware that there are points that might develop into weaknesses if we are not careful, aware, and awake.

In preparation for today's discussion, I read what Mr. Loudon gave me a few weeks ago, a copy of a lecture delivered here not long ago by Dr. Luther Gulick of the Personnel Administration Society. In that lecture he made a statement, a short paragraph of only a few lines, in which he said, after having painted a very favorable picture of many other things, that we did not solve in wartime the problem of the relationship of wages to prices; and that, after the close of the war, in 1945 particularly, those problems, including the problem of fiscal policy, were not at all solved, they were not even approached, they were allowed to drift, with the result that we are mighty fortunate thus far that we have not had much more inflation and disarrangement than we have had. The end, however, has not yet been seen. Dr. Gulick disposed of it with that one remark, and my remarks are primarily built around that observation.

We did not solve the problem of wages relative to prices. We had a tremendous store of purchasing power, which has not been used up yet, and there is a question whether we are going to be able to avoid an even more serious inflationary spiral. However, I don't think I can go any further in prediction than the President's Council of Economic Advisers did when, in its recent report--you may recall having read it in the newspapers--it

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said, "Prices are either going to continue to go up or go down." The Council was not quite sure. But the picture was confused; of that much it was sure. And sometimes I think my profession is the science of confusion.

What I am saying here today has nothing to do with the advocacy of anything. I am not advocating planning; nor am I advocating no planning; I am simply trying to analyze and to observe.

Our attitude toward economic life is based upon certain assumptions, more frequently unstated than stated, but, nevertheless, very definite, and it finds its concrete expression in the writings of the usual orthodox economists. It goes back to the technology and the organization that developed throughout the nineteenth century. It is a highly mechanistic approach. It is an approach that is based upon the assumption that, if each person is allowed, with no interference by the state, to do as he pleases, he will, by his own individual choices and judgments and actions, do those things which are conducive to the welfare of the entire group.

That is sometimes known as the doctrine of the "Invisible Hand," which was first expounded in 1776 by Adam Smith, the great economist of Scotland. It was no accident that the doctrine was stated in the latter part of the eighteenth century at the same time that the Declaration of Independence was being formulated by Thomas Jefferson, because it is the economic counterpart of the concept of political freedom.

And that political freedom is something which you and I--and I speak for myself most wholeheartedly--value as more important than anything else. The issue is whether we can preserve that political freedom and at the same time secure a balance in our economic life that will prevent us from going into these periodic tailspins that have, in the last five generations or so, been becoming more and more severe with larger and larger numbers of unemployed and, therefore, offering great danger to our political stability.

The economic rationalizing that arises out of this predisposition to look upon individual freedom as providing the adjusting mechanism is based upon the idea of an economy consisting primarily of small tradesmen, shopkeepers, and artisans. In the days when this theory was formulated, the days when our Declaration of Independence was drafted, economic life was exceedingly simple. There were hundreds of little shoemakers, hundreds of little shopkeepers, no large corporations, and no large factories, which meant that any tendency toward too much of this or too little of that was very quickly adjusted--quickly in terms of the tempo of those times--by people going in and out of the field. If there were too many shoes, people would leave the shoemaking industry and go into something else. There was always adjustment. The forces of adjustment were fluid, they were mobile; and just as in the physical realm a liquid finds its own level, these

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forces found their own level, they found an equilibrium position, so that there was an adjustment, and it was usually an adjustment at fairly full employment.

I might say at this point, by way of footnote, that the idea that the job of the Government is to keep its hands off the economy is still very much with us. Maybe it should be. I am not saying it should or should not be. I am simply observing that it is still with us. And down deep I dare say that everybody in this room does not like government controls; I don't. I found nothing more annoying during the war than to have some little bureaucrat tell me what I could do and what I could not do. I didn't like that. Americans as a whole don't like to be told what to do. In fact, our forefathers came over here because they were opposed to government. They didn't like government. They didn't like taxation. They just wanted to be left to their own economic fate. To them "social security" would have been vicious.

What has happened since that time? First of all, we have had, as your own Professor Williams has pointed out in meetings I have attended outside this institution--I am sure he has pointed it out to you--such a tremendous increase in technological development that, since my grandfather's birth and even more recently than that, there have been more technological changes than in all of human history before that time. The age of steam and the age of electricity, which now give promise of being dwarfed by the age of atomic energy, have introduced brand-new sets of problems that our economic ideas, our mores, have not yet caught up with. We had not even learned how to live together economically without going into these tailspins when the age of steam came upon us, then the age of electricity, and now this new age.

These technological changes have brought with them the need for large-scale industrial assets, large factories, heavy overhead costs, with the inevitable result of large-scale financial organization. And when we move from a simple economy of tradesmen and small shopkeepers over into an age of heavy industry, large-scale industry, and large-scale corporate finance, we have done something which, by way of analogy, might be compared to making the oatmeal bumpy. The economy is no longer fluid, smooth, and self-equilibrating. The supply and demand factors do not adjust with the rapidity that they used to.

For instance, if the railroads, for some reason or other, come into perilous times, what happens? Does the railroad just give up a little of its rail or its rolling stock? Of course not. The railroad is good as an investment only so long as it is an operating concern. Foreclosing mortgage bondholders just do not take a rail or a piece of rolling stock in settlement of default. The railroad remains but must reorganize financially.

I remember visiting, in 1936, right after the depth of the depression, some bankrupt textile mills in New England. The archaic nature of some of the equipment in those factories was unbelievable. But, they did not go out of business; they simply reorganized financially and went through another round until finally some did hit bottom and had to go out of business.

Furthermore, suppose you and I had a few million dollars between us. We see that United States Steel and Standard Oil are making pretty good profits. Would we say, "Let's get into the steel and oil business"? Would you risk a million dollars competing with United States Steel and Standard Oil? I would not even if I had the million. Capital, labor, and machinery do not move in and out with a nice automaticity, as they used to in the old days when life was simple and investments were small and personal. Out of our great engineering accomplishments and modern production techniques have arisen many of our most cogent economic problems.

Then there are other problems that have been introduced into the field to aggravate these rigidities of which I speak. We also have something in this country known as politics, in which decisions are made on the basis of group interests, political pressures, and partisanship on issues that ought to be too important to be decided by local politicians. We have problems that arise out of powerful pressure groups that play upon our sympathies, our emotions, and sometimes our common sense. I am thinking now of such phenomena as our agricultural support programs, whereby a large group of people are able to support their income at a level which is higher than it would be if normal economic forces were allowed to adjust. We also have labor unions, some of whom have abused their power as have these other interests; so that we have in many quarters a rigidity in the labor field that, in its attempt to get higher returns for less physical accomplishment and production, is able to accomplish what is tantamount to industrial monopoly. And then we have, also, the matter of tariffs, the propensity of industrial groups, particularly those that are not so big and efficient as the ones I have just mentioned, to try to introduce, through special privileges of one kind or another, a set of forces that will enable them to get more for producing less.

In total, you see what is happening. We have a pie that is divided into segments. The agricultural population, the industrial groups, labor, and so on, each get a crack at that pie. But what we all seem to be so interested in is that the angle of segmentation of our piece of pie be bigger than the next person's. It does not occur to us that if we all do that, the diameter of that pie is going to be smaller than it would otherwise be. By our group attitudes, the segmentation of our political action in the field of economics, we have been making for a smaller pie. We are living in an age where scarcity is emphasized instead of economic abundance. In spite of that, however, we have turned out more goods and we have a larger gross national product than any country in the world has ever had

before. The dangers, I think, are not so much, at this juncture, in the absolute size of that pie, although that is important, as they are in the fact that the introduction of these rigidities means that we do not have the automatic adjustment of the invisible hand of self-interest that our accepted economics tells us we have or should have.

Now, then, which way should we move? We want our political freedom; that much is basic. We want freedom of speech, freedom of religion, and all the other basic freedoms. What can we do in the economic field to bring about that which is supposed to be brought about by the force of automatic adjustment? Let us consider an illustration or two.

We are short of housing. So we have rent controls that are introduced for the purpose of protecting tenants against landlords who, in the absence of such controls, would be able to get abnormally high rents. How do we get more housing? Do we get it through a large public housing program? Or do we get it by allowing construction to become an enticing field for private capital investment? Obviously, so long as rentals are not allowed to rise to a point where they will attract new capital, private capital won't enter the field.

Or, take the field of European economic recovery. Now that the first two years of ERP have elapsed and the program has been a success in terms of the purposes for which it was established primarily (in the space of two short years industrial production in western Europe is well above what it was before the war in practically all countries), we want Europe to become, as we say, viable. We want the Europeans to be able to produce goods and sell them at prices that are competitive with those of our goods. At least that is what we say. Sometimes I wonder, by way of footnote, what would happen if that were accomplished and where the howls would come from if large shipments of European goods was to enter our country. But how do you do that? Sometimes it is said the quickest way to ruin a person is to give him something for nothing, to give him charity. If the Frenchman, for example, gets money for nothing, why should he work for it?

What I have been giving you is the idea of the Right Wing--I don't like to use the term "Right Wing" before an American audience--the idea of the conservative group that is still attached to the belief that, if government does only a minimum, takes care of defense, takes care of law and order, and keeps its hands off the economy, these forces will adjust; and the way to get more houses is for government to keep its hands off and to allow the prices to go up to induce private capital to come in--that is, since the war is over and materials are no longer under control.

Of course, during wartime things are quite different. In wartime we temporarily abandon our freedoms. It has been the strength of the American democracy that we can take on wartime dictatorship and give it up afterward. But in peacetime, in time of cold war, of diplomatic tension, I doubt if

there is anybody in this room who wants to see us, on the economic front, go into the sort of thing that we would go into in the event of another hot war.

Or should we take the other track? Instead of doing away with these controls and instead of ladling out this money to Europe--instead of the Fair Deal program, in other words--should we follow the line of planning? I don't know the answer to this question, but I think that is the issue. Should we try, through government, to help along the adjustment? In other words, if there are rigidities, as in the case of farming controls and prices, should we try somehow to get farmers off the farms so that supply will adjust to demand? Or should we do the sort of thing we are doing now; namely, prop them up with some sort of two-by-four timber and hope they will stay there? Do we have to go all the way from one extreme to the other, or is a middle ground possible?

I don't know the answers to these questions, and I don't think any one person knows the answers to them. But the thing that disturbs me is not that we American citizens don't know the answers. The thing that disturbs me, as I talk to my friends and to my students, is that there seems to be little awareness of the basic nature of the problem.

What we have today is a mixed economy, and it is pretty well mixed as between this being wedded to the idea of absence of controls, of free enterprise, on the one hand, and controls introduced as necessary in a makeshift pattern, on the other hand.

And we should not be afraid of the word "planning." Heaven help the business, the university, the college, or the person who does not plan! That is what differentiates me, I think, from a squirrel--or maybe squirrels do plan--the intelligence that we flatter ourselves at having that we can look into the future and adapt ourselves to it. "Planning" is a perfectly respectable word. It does not mean Hitler, it does not mean Stalin, and it does not mean Mussolini, necessarily. What it means is that an intelligent people look ahead and decide what they want to do.

The problem of the business cycle, I think, in a very real sense, is the problem of adjustment. Instead of occurring quickly, it occurs over a decade from one trough of an economic cycle to the next. So when we say we want to iron out business cycles, that we want to stabilize the economy, we are groping conceptually for an answer to the basic problem of adjustment.

Labor does not move easily, nor, for that matter does capital. High overhead costs prevent it. And these political controls, these group pressures, all aggravate those rigidities.

Take the international field, which happens to be my main specialization. You have had a lecture here, I understand, by Mr. Winthrop Brown of the State Department, and I take it that he said something regarding international trade: That all we have to do as a nation is somehow or other get these other countries, who are very bad boys, to give up their bad ways of behavior; that they must give up quotas, exchange controls, bilateral agreements, which are the epitome of evil from our point of view; that they should adopt the multilateral trading approach that we say we would like to have. Of course, there is the little matter of American tariffs; we try to lower them when we can, but some of them cannot be touched--but that is a little different.

These countries--France, for instance, England, western Europe,--from anything like a reasonable point of view, are not doing these things because they are devilish and don't like us. They are doing these things because of the nature of their economies. England could not, at the moment, embark upon a convertibility program for its currency. The British tried that on 15 July 1947 under our pressure, under the terms of the Anglo-American Financial Agreement (British loan), and the result was that there was such a run on the pound sterling that they had to stop it abruptly.

These countries are not able to pay their way. Why aren't they able to pay their way? In the first instance, because their production machine was crippled by the war. And in 1947, when we were evolving the ERP, the thought was that if only they could be gotten going again with food, fuel, fertilizer, and important industrial equipment, all would be well. That period of transition was judged to be in the neighborhood of four years. That transition has already been achieved, but still their predicament is serious. They are not paying their own way. They are not yet able, or they have not demonstrated that they are able, to produce efficiently enough to compete with American goods.

We say, "Why don't they become more efficient, adopt American selling methods, and become more like us Americans?" We don't say it in quite that way, but that is what we mean. Maybe they don't want to become Americans; maybe they don't like high-pressure salesmanship; maybe they like a more leisurely existence. At the same time we say we are not going to tell them what to do. We are trying to ride a horse both ways. We are trying to tell them what to do and not tell them what to do. We want them to get on their own feet, but we give them billions of dollars, which helps retard their getting on their own feet.

Should we abolish foreign aid and take the political risks that go with that act, the risk of communism? Heaven knows what that risk is! There is a lot of fear, but what the actual risk is I don't know, and I don't think anybody else knows. Or should we continue to ladle out the aid?

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That is just one expression of this general problem, and, in the international field, it might be epitomized by saying that the current policy of the Administration is that countries should allow their economies to adjust to the whole jigsaw pattern of the world; each economy should be geared into other economies by way of trade and specialization.

What country today wants to take the risk of having its national economy buffeted around in the sea of international discord? Do we? I don't think so. And if any country in this world has insisted upon the rights of national sovereignty, it has been the United States. Where do you suppose the veto power came from? Who thought of it first? Certainly the United States Senate never would have approved the United Nations, and perhaps rightfully so, if the veto power had not been there. Neither would Great Britain nor France. The world has not yet reached that stage of development.

I could go on endlessly this way. Perhaps the students have a few questions that would show which part of this general discourse I might develop a little more.

COLONEL HICKEY: Dr. Piquet is ready for questions. I just want to call your attention to the fact that Dr. Piquet is with the Legislative Reference Service of the Library of Congress and, therefore, has more than one side of this picture.

QUESTION: I would like to hear your discussion of what seems to me to be an inherent difficulty that you have not discussed explicitly. In some things we have attained a productive capacity that is so great that, if a particular industry is turned loose with a lot of freedom, it will very soon, maybe in a few years, produce to the point where it destroys its own investment. It seems to me that more and more industries are getting into that enviable or unenviable situation, depending upon the point of view.

DR. PIQUET: Abundance of riches, in other words. I think what you say is one of the most important problems you could put your finger on in this whole area. It has to do not merely with industries within the United States, but it has to do with the position of the United States with regard to the rest of the world.

When this country becomes so tremendously productive in all these lines, the answer that the orthodox economists would give is, "That would mean more leisure for everybody and more goods for everybody"; which goes back to the main thesis of my talk; namely, that there would be an adjustment. It would be spread, in other words, among all industry. I think your point is that it does not spread; it stays in those areas that have introduced these economies.

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There are other large areas that do not have these economies, notably agriculture. In fact, that underlies the tremendous pressure that was built up from the early twenties right down to the present time for agricultural support to give agriculture the purchasing power that it did not have, compared with industry. That arises out of a very basic observation, in technical jargon, that the demand for industrial products is elastic, while the demand for agricultural products is inelastic. In other words, your stomach is fixed in size. You want so much food, and, outside a certain increasability because of the varying quality of food, you don't have the insatiability of wants that you have in the case of industrial products, where you can use two cars, a television set, and many other gadgets.

So that problem, it seems to me, is part and parcel of what I have been talking about here and underlies it all. In the international field, it has brought into very clear focus the issue as to whether the old classical theory of international specialization works any more, because we Americans have been able to produce most things today more efficiently and more cheaply than other countries, outside certain specialties that are quite plainly the result of climatic differences. But to the extent that the world has become industrialized and is becoming more so, this whole question of aptitudes becomes more and more questionable, because you can put a machine, particularly with American know-how, into the hands of, say, Japan, and the Japanese can produce many things as efficiently as we can; and because they have a lower-wage scale that arises out of other factors that are far more complex than we have time to go into here, they can actually undercut us.

That has resulted in a whole modern literature questioning some of these basic premises of classical economics in the international field. A new book called "Dollar Crisis," by a British economist named Thomas Balogh, has just come off the press. If you want a briefer statement, I refer you to a book called "Foreign Economic Policy for the United States," edited by Seymour Harris, in which there are two chapters, one by the Harvard economist Haberler, which gives the orthodox position, and the other one by Balogh, which talks the way you and I have been talking these last few minutes.

The answer to your question is very basic and underlies many of these problems of adjustment.

QUESTION: Dr. Piquet, your comments on our foreign-aid program lead me to ask this question: Do you believe, in the planning as well as the implementation of our foreign-aid program, that we use good, sound economic principles, or are we working on a basis of "the dollar buys anything"? A corollary to that question is: Do we have the economists of the type that could act in accordance with sound economic planning?

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DR. PIQUET: So long as you use the word "sound," my answer must always be yes. The only question is, who decides what is sound? Many people, including some economists, characterize a thing as sound, and as soon as they do it means that they have made a decision before they have asked the question.

QUESTION: I am wondering if our concern of the last 10 years about the economy of the world has not been brought about by the Russian spread of communism based on the concept of stability and equality. In other words, in a democracy, in theory--and in practice I trust--we speak of equality. We say that if we keep talking about equality long enough, people will start to believe in it. It is true that our economy started out with equality of opportunity. The tradesmen you spoke of accepted that. Nobody argued the point. Everybody was equal, they fought for each other, and so on. We have carried that to the point, however, where now we have an equality complex that causes us to say, "If you don't work, you get it just the same. He has more than I have, so let's have equality."

That concept exists in a form of socialism, as you say, that we are trying to avoid. Yet democracy is the very basis of equality. Communism and democracy are both arguing for the same principles. We are doing it in one way, they are doing it in another, but, in the final analysis, we are both arguing for the same thing.

"Planning" is a good word if you use it properly. The point is this: Is planning in Washington much different from planning in Moscow when it comes to remaking the world? I am wondering if our kind of planning is not the same as that of the Communists when we say to other nations, as we have done recently, "You don't get any more money if you don't do it our way." What is basically different?

The Communists are using ideas. What ideas have we got to sell that are superior to those of the Communists? That is what I want you to answer.

DR. PIQUET: Well, I just don't like to be liquidated by some government authority. Let's put it that way. It is very easy to plan a la Hitler or Stalin.

Leave out the Communist ideology. That is a smoke screen. "Democracy," "equality," and all the rest are of the same nature as religious slogans; they are designed to arouse emotions. Let us get down to the heart of this question. How do the different states get what they want? Do they get it by persuasion and something close to the "will of the people"? Of course, in that sense, we don't have pure democracy, obviously. Anything bigger than a Greek city-state could not hope to have it. But we do have a republican form of government, we do have representative government, which, with

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all its shortcomings and political hack pressures, and so on, still does give us all a pretty tolerable degree of freedom.

The very fact that I can stand here in front of an audience of you gentlemen and talk this way about my own ideas is in itself an evidence of something. You could not do that in Russia--you could not have done it in Germany or Italy or Spain--because somebody is there to shoot you if you do. You cannot believe the way you want to believe, because somebody will put you in a concentration camp. You don't have freedom of thought; you have thought control.

That is what I mean by the difference. Much of the rest of it, I will agree with you, is "eyewash."

QUESTION: Several of our speakers have pointed up the fact that we must not have another depression because the other parts of the world will simply forsake us. But nobody has come up with any idea of how to correct the possibility of another depression, whether big or little, except this apparent constant shot in the arm which is inflationary in nature.

DR. PIQUET: Priming the pump.

QUESTION: Yes; the constant priming of the pump. And every time we prime it, we get on a different price level, a higher point on the economic curve, from which we never recover by going down again.

Since we cannot permit any depressions or recessions, what is the answer to all that? Can you discuss that briefly for us?

DR. PIQUET: I think the awareness of the problem, first, is the important thing. The economic intelligence and insight of masses of people are not very great. During the war, as I read the newspaper at the breakfast table, I would say to my wife, "Here is another round of wage increases, another wage increase for Federal employees, another 10 percent hike. When are they going to stop this business? When are we going to stabilize? When are we going to tell the wage earner that he, too, is engaged in war and that he is supposed to do his share for victory?" But I wonder, speaking only for myself, whether, if somebody had come to me and said, "Don't accept the increase; you don't have to take it," I would have refused it; whether, if I were engaged in occupation "X" and somebody told me that occupation "X" is not suited to this environment and that it would be better if some other country produced the goods, I would get out of that occupation.

Pottery is a good illustration. It is a practical case. We produce pottery of certain types in West Virginia at much higher cost than the British can produce it in England, because of aptitudes, ability, and a

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lot of other factors. If you went to the pottery people in West Virginia and tried to persuade them that they should just quietly sit back and do that which is in the national interest, would they do it? No. I don't think any one of us is built in such a way that, acting as an individual, each will do something which is contrary to his own immediate pocketbook interests. There is not that much unselfishness in the world.

I don't see the answer to the problem, but I think awareness of the nature of the problem is important. That is what I tried to make clear here in my half-hour talk.

It is not a little problem of a business cycle, of which we simply study a few statistics and introduce a few controls. It goes down deep in the capitalistic system to the underpinnings--the faith that if you leave it alone it will work itself out.

Now, you may be convinced that it does not work itself out, in the sense that if I flip a coin, it might come heads, it might come tails, and it might stand on edge. The chances are that it will not stand on edge. The chances that our economy will adjust itself, as it becomes more and more complex in an age of increasing technological development, is becoming more and more remote.

Therefore, I am forced to the conclusion that we shall have to embrace some sort of democratic planning. I don't know how to do that, and I don't like the words "communism," "socialism," "fascism," and all the rest. I think we must evolve an American system. We must, in other words, bring our social and economic engineering up to a higher level that will be more commensurate with that of our engineering in the physical sciences.

We have, as Stuart Chase said years ago, a million wild horses of industrial power, but we don't know how to drive them. They are a tremendous power, but the horses are going in different directions. Now, how we can bring them together and still not substitute a dictatorship for democracy holding the reins is the problem. If I had the answer, I would not be wasting my time as a government clerk.

COMMENT: This is not a question, but you may wish to comment on it. The following are definitions of some of the "isms." You have probably heard them. I will read them to you.

"Socialism.--You have two cows. You give one to your neighbor and content yourself with the other.

"Communism.--You have two cows. You give both to the government, and the government gives you the milk--perhaps.

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"Fascism.--You have two cows. You give the cows and the milk to the government, and the government sells part of the milk back to you.

"Naziism.--You have two cows. The government shoots you and takes both cows.

"Unionism.--You have two cows. They fight so much as to which gives the more milk that neither gives any. So you sell one to pay your union dues. Then you have to sell the other to pay the grocery bill during strikes.

"New Dealism.--You have two cows. The government shoots one cow, milks the other, and pours the milk down the drain.

"Capitalism.--You have two cows. You sell one and buy a bull."

DR. PIQUET: That summarizes it very well.

QUESTION: Sir, you have suggested that the economists' dilemma is an inability to locate a set of valid assumptions from which to start, or there are still some assumptions they have not located yet. Well, if the world's resources be considered the ultimate limiting factor, then each economic system would seem to be simply a local means of developing and utilizing these resources; in which case, we have found the most efficient way of exhausting the resources to our present advantage.

If that be the valid framework, and the world's population is unable to utilize the resources to the best advantage before they are exhausted, then it seems to me the nature of the problem is to convert man into a cooperative individual who will stay one jump ahead of the resources instead of allowing the resources limitations to press upon his ability to control them.

DR. PIQUET: That is all you have to do; I agree. That is the issue, of course.

I am not addressing my remarks to the economists' dilemma. I am talking about all of us as citizens; we are the ones who have to make these decisions.

I think any one of us, with reasonable intelligence, in a position of economic dictator, could probably run the world pretty well. After all, Hitler was a paperhanger. You just have to have a certain dictatorial complex to do these things. The question is, how do you do it when you get a lot of people together and you count votes? How do you get people to behave as a group? I dare say everybody in this room would make a better manager of the world than Hitler could have made. But, first of all, we don't want to do it even if we could do it. We don't want to be dictators. We don't like them.

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You know how it is if you teach a class. I had a class of Sunday school kids years ago when I was in college. They were little fellows nine or ten years old. I have one like that myself now, so I don't have to pull my punches too much. To get those little kids to behave normally, like human beings, was almost impossible. I could manage any one of them by himself beautifully.

Any gang of kids--any gang--is hard to control or hard to get to express itself in a reasonable way. That is what we mean by "the mob." How do you get a mob to behave the way it could behave if all the people were one man, if all the countries were one country, and so on?

World government, of course, is a laudable ideal. I hope someday we will come to the point where man will organize as man in a sort of world parliament, but let us not kid ourselves that we are going to see that tomorrow or the day following. Countries with entrenched governments don't want to give up any of that precious thing called sovereignty.

The problem is one of practical horse sense. Many economists think they have answers to these questions. I can give you some names if you want them as lecturers. But most of their solutions have little relevancy to the world of affairs.

QUESTION: Dr. Piquet, all the economists seem to use Adam Smith as the sort of genesis of every lecture on economics; always economists seem to refer to Adam Smith. What did the world do before Adam Smith?

I want to qualify my question so that it won't be facetious. The Romans seemed to get along for a long time pretty well. Is there any real integrated economic history, and can we learn any lessons from the ancients, so far as economics goes?

DR. PIQUET: That is a big question. In those days, life on the technological side was pretty simple. Compare the military methods of those days with those of today. Today you often don't even see your enemy when you are fighting him. In those days, a person got up to his enemy and hit him with a rock. In those days people had their problems, but the world as a whole was much smaller.

You will recall that as a basis of the discussion this morning I mentioned the extreme technological changes that have occurred in the last 75 years or so. I think many, if not most, of these difficulties I am talking about arise out of two main factors: (1) the growth of population, and (2) the scientific advancements that we have made.

I think our strength is also our weakness. That is what I meant when I said we had advanced so far so rapidly along technological lines.

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But in the field of economic insight--I call it economic engineering--we have not moved with anything like that rapidity. We still think as we thought 100 years ago in terms of these fundamentals. We still think of the right of private enterprise to do as it pleases. We don't want controls. That is the sort of thing I was driving at.

You say that in the times of the Romans, they got along. Yes, they got along, but they also had many fights. They were not a peaceful people. They had such a thing as a Pax Romana--the power of Rome to enforce peace. There are people today who are advocating a Pax Americana as the only way of getting world peace. There are others who are saying, on the economic front, that it is doubtful whether that sort of peace could be enforced, because of what it would take in terms of these economic potentials.

I think the question you ask does not admit of any simple answer. It requires a deep comprehension and a wide reading of economic history. The world has not always had economic difficulties, but the world has never before, that I know of, seen a cold war, a battle of ideologies and diplomatic tension, as severe as this one that we have today.

QUESTION: Do you not think that the impact of geography in the fifteenth and sixteenth centuries was just as great as the impact of technological progress is on us today?

DR. PIQUET: I don't think so.

QUESTION: I refer to the fifteenth and sixteenth centuries, when the whole world seemed to be opened up, and everybody was a geographer, just as a person must be a physicist today to amount to anything. In other words, this world has been going on for a long time, and I think it will be here a long time after we leave it.

DR. PIQUET: I started out by saying that I was not going to stress the strengths of our economy. We are tremendously strong. I think that the purpose of this sort of discussion is to accent the problem areas. I am not trying to dodge your question, however, by saying that.

These problems of distance, though, gave us time--by "us" I mean the people of the world--in which to prepare. In the First World War, to bring it rapidly down to recent times, we had a lot of time in which to prepare. In fact, the Armistice came in November 1918, before we had any large aggregation of supplies and men in Europe compared with the total effort. This time, we had time, too. We had from 1939--even before that for in 1938 it became pretty clear that trouble was coming--until 1941 to prepare. Next time we might not have time. Distance has been annihilated. You probably know much more than I do about the technological side of it, but I have read enough of the writings of people in uniform and of scientists to realize that, if this cold war should develop into a hot one, we are not going to have much time to prepare for it.

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I am more inclined, however, to believe, although it is pure guesswork, that the likelihood of hot war is not very great and will not be for quite a while; that the chances of a continuation of this diplomatic stress, of this cold war, for quite a while are great. Why should Russia run the risk of loss of manpower and strength if she does not have to do so? She is getting what she wants in large measure by other means.

We are engaged in a struggle which is more than ideological. It is a struggle for power. Yet we do not have the usual weapons that we have in fighting a war, because we are technically at peace. The people's imaginations are not fired to anything like the extent they were when we were struck at Pearl Harbor.

I think the answer to your question is one of tempo. Things are moving faster now, and we have to be prepared more quickly for whatever we want to do.

QUESTION: I am going to continue that last question a little. I think what the gentleman was trying to get at--it is something I am trying to get at too--is that there are, as I understood my own early basic economics prior to 1940, some basic natural laws of economics, something similar to the law of supply and demand. Do they still exist, do we legislate economic laws in our Congress, or is the situation, as someone once stated, that any laws on economics prior to 1940 are obsolete?

DR. PIQUET: If I may, I would like to introduce a note of advertisement at this point. I give a course in economic theory at American University and devote a full 32 weeks to that subject.

As to economic laws, the answer is "yes" and "no." There are some, but the real economic problems--the problem of who gets what--I don't think are subject to economic laws in the same sense that when I drop a book, it goes down because the principle of gravitation is working. The principle of gravitation is an inevitable, immutable part of the law of the universe. There are certain things in the field of economic speculation that come into that category, perhaps, such as the fact that the tenth sandwich is not so satisfying as the ninth when a number of sandwiches are eaten at one sitting, or that you cannot use one acre of land to produce all the wheat for the world. Those are physical laws, though--physical, psychological, and physiological.

These laws are really not in the realm of the economic problems we are talking about, such as: How much does labor get in the form of wages? What determines what labor gets? What determines where labor is going to apply itself? These problems are much more a result of a habitual way of thinking and behaving than of physical law. In other words, they have to do more with our general institutional background and development.

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What determines wages? I could expatiate on that for quite a while, but I am reasonably sure it is not the productivity of each laborer that determines the wages, or the margin of productivity of the last added unit of labor, to get technical for a moment. I am more convinced that wages are determined by such things as John L. Lewis, the thinking of the people, Taft-Hartley Acts, and, in general, our institutional fabric.

That is a brief answer. I will give you a 32-week answer later.

COLONEL HICKEY: Dr. Piquet, on behalf of all of us here, I thank you for an excellent presentation. Thank you very much.

DR. PIQUET: Thank you.

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