

RESTRICTED

181

ECONOMICS TODAY--SCOPE AND CENTRAL PROBLEMS

11 September 1950

CONTENTS

	<u>Page</u>
INTRODUCTION--Dr. L. C. Hunter, Member of the Faculty, ICAF.....	1
SPEAKER--Dr. Howard S. Piquet, Senior Specialist in International Economics, Legislative Reference Service, Library of Congress.....	1
GENERAL DISCUSSION.....	12

Publication No. L51-12

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

RESTRICTED

RESTRICTED

Dr. Howard S. Piquet was born in New York City in 1903. He received his Bachelor's Degree from New York University in 1924 and his Master's from the University of California in 1926. In 1930 he received his Ph.D. degree in economics from Princeton University. From 1928 to 1932 he taught economics at Princeton. He was then appointed professor of economics at New York University. In 1934 he joined the economics staff of the United States Tariff Commission and became the chief of the Economics Division in 1937, serving until 1943 during which time he directed the studies which culminated in the Reciprocal Trade Agreements. In 1943 he left the Tariff Commission to attend the Hot Springs Food Conference and to serve until 1945 as an executive secretary of the United Nations Interim Commission on Food and Agriculture. In 1945 he joined the staff of the Office for War Mobilization and Reconversion and while there was appointed the executive secretary of the Inter-Agency Policy Committee on Rubber. Since 1946 he has been Senior Specialist in International Economics of the Legislative Reference Service of the Library of Congress. He was detailed in 1947 to the Foreign Affairs Committee of the House of Representatives and served as deputy staff director of the House Select Committee on Foreign Aid. His present position is Senior Specialist in International Economics of the Legislative Reference Service of the Library of Congress.

RESTRICTED

ECONOMICS TODAY--SCOPE AND CENTRAL PROBLEMS

11 September 1950

DR. HUNTER: General Vanaman, gentlemen: There is in Washington today a small but select group of public servants. They are economists. They lead a double life: By day, in the various agencies where they serve, they lead a life, so it is alleged, of continual frustration--frustration in their efforts to apply their professional knowledge to make the economy tick. By night, however, they relieve these frustrations, in part at least, by meeting with classes at local universities. Here they lay their stuff right down on the line to their respecting and even admiring audiences. Here they train the younger generation, the public servants, to become economists so that they, too, can achieve the frustration which is their predestined fate.

Now, whether or not Dr. Piquet acknowledges membership in this select group, he is both a distinguished economist and public servant; also a very able teacher. He has given the Industrial College many a helping hand in the past. We are delighted to have him with us again this morning to discuss the scope and problems of economics, that branch of knowledge which has been referred to as the "dismal science." Dr. Piquet.

DR. PIQUET: Inviting a person to talk on economics is like inviting somebody to talk on man--there is no limit to the subject.

It is always a pleasure and a privilege to talk with you people; however, I feel inadequate to the subject. I have never had the same subject twice, and each time I leave feeling that if we had only had about five times as much time, we might have begun to open the subject.

From your point of view, it is unfortunate that the subject assigned to me this year is somewhat abstract. But I think that in the long run it is good because my lecture will be followed by other speakers who undoubtedly will be much more concrete in what they have to say.

I think what I should do this morning is to raise certain questions of doubt in your mind. I am fully aware of the fact that you people are not professional economists and that therefore, to a certain extent, I may be building up straw men in order to set them afire. It is true, I think, that almost everybody thinks of himself as an economist, for the quite obvious reason that practically almost everything we do is economic. For instance, we all handle money. Yet our best economic minds are still struggling with what money is. We just do not know much about the things that are the most obvious. About all that we can be sure of is that the

relationships are tremendously complex. Yet the people who do not hesitate at all to barge in with quick solutions are the very ones who are not even aware of the complexities. It is like the person who goes after a hornets' nest with a rake. That is one way to try to kill hornets, but it is not the best way.

When we talk about economics we are talking about something that concerns every one of us. Money relationships, production, consumption, transportation, distribution, income, inflation, deflation, war finance, stabilization are all a part of economics.

No science is delimited by subject matter. For example, physics deals with everything from the point of view of fundamental forces. Biology deals with everything that has the characteristics of life. Economics deals with everything having the characteristics of getting and spending. Traditionally speaking, economics has become, in the course of the last 200 or 300 years, narrower rather than broader. In the early days--I am speaking now of the ancient and medieval period when there was no science of economics, no pretense of science--the problems of the household, the problems of the king, were taken care of by advisers who were known as Cameralists.

It was not until the period of the American Revolution (1776) that the first relatively systematic work on economics was published. This was the famous "Enquiry into the Nature and Causes of the Wealth of Nations" by Adam Smith. There was a very close connection between the contents of that book and that which we associate with the year 1776--the spirit of independence, the spirit of individualism; the spirit of government leaving the whole system alone, comprehended under the term "laissez-faire," or "hands off."

But a few years later, the early part of the nineteenth century, that which has come to be called "economics" was shunted on to a much narrower track. The men who are responsible for having started that were David Ricardo, an Englishman, and his successor, John Stuart Mill, the famous logician, philosopher, and economist. The economics of Ricardo and Mill came to be known as the "classical school." They narrowed questions of economic inquiry into the production and distribution of wealth into a study of the things that are scarce. Problems of production, distribution, and consumption all revolve around the problem of scarcity.

Underlying that in turn is the basic faith that if only government would keep its hands off, the economic forces would work themselves out in such a way as to bring about equilibrium, automatic adjustment, so that there would be optimum output, automatic distribution of wealth and income, in accordance with merit. That was known in the days of Adam Smith as the doctrine of the "invisible hand." If a person is allowed

to do that which he wants to do and can do best, as though he were guided by an invisible hand, he will automatically do that which is in the public or general interest. This doctrine of harmony of interests constitutes the underlying foundation of orthodox economic thinking even today. There have been refinements, to be sure, such as those of the Austrians, who shifted interest from cost to demand. But there has been no essential modification of the basic thought that there is automatic adjustment of fundamental forces. This automatic adjustment, in the language of the man in the street, is often called the law of "supply and demand." There is an old statement, you know, that if you teach a parrot to say, "supply and demand," you have made an economist out of him. I sometimes think that there is a certain amount of truth in it.

I fear that I am about 25 years late in getting here to deliver this lecture. If you could have gotten me when I was doing my undergraduate work, I would have been much more confident about my generalizations. However, these last two decades have convinced me that I do not know the answers; all I know now are the questions. Yet, I am not too ashamed since I also know that nobody else knows the answers either.

This equilibrium I am talking about, this adjustment according to orthodox theory is supposed to come about through the adjustment of physical supply to changes in demand. That is an important point to remember. If, for instance, the supply of "X" commodity, say shoes, increases relative to the supply of other things, their price is supposed to fall and there is supposed to be a movement of capital and labor away from shoe production into the production of other things. Similarly, a shortage of shoes is supposed to result in prices sufficiently high to attract new capital and thereby increase supply. Such adjustments include not merely the adjustment of supplies of goods to the demands for them, but of the factors of production as well. Thus, labor is supposed to adjust itself to the lines that yield maximum return and wherein wages are "normal." Similarly with regard to capital investment, capital will be apportioned in such a way as to attain levels of "fair" return. The same with rent on land, and so on. It is analogous to an experiment in a physics laboratory. You have a number of vessels connected with glass tubes. When you pour a liquid into one of the vessels, it finds its own level very quickly in all of the vessels because they are connected.

If only the economic system did work that way, we would have very little to worry about. The trouble with all of this theorizing is that it is an oversimplification. The search has always been for universal principles. That is what we mean, I suppose, by saying this thing we call economics is, or can become, a science. Whether or not economics is a science (and parenthetically I do not think it is), it is vitally important that the people who concern themselves with economic problems be scientifically minded. I mean experimentally minded, cold-blooded, hard-hearted when it comes to searching out the facts.

The scientific method consists, first, of the construction, deductively, of models or hypotheses; and, second, the testing in the laboratory of these hypotheses. Unfortunately, we cannot adequately test economic hypotheses in the manner in which physicists can test theirs. You cannot take people out of the world, put them in laboratories and start playing with them. All that we can do is to observe the behaviour of people in the world as it is and make sure that in our thinking we do not leave out any of the important variables or factors.

If any of you have been exposed to this older form of economics, this highly mechanistic form of economics, I think you will agree with me that it has very little relationship to the world of which we are a part. In the earlier days the theorists were outspoken in proclaiming that economic man's sole motive was to do that which gave him a maximum of pleasure and/or a minimum of pain. In the search for universals, they unconsciously adopted into their thinking the institutional arrangements that prevailed at the time and in the place in which they were thinking and writing, namely, 19th century Britain. Fortunately, most economists pay little attention to this brand of theory when they come to practical problems.

They wrapped all their thinking around the tripartite division of land, labor, and capital. Pick up almost any textbook today of the old school and you will see that the principles of distribution are wrapped around land, labor, and capital. Although much of it makes little sense today, it did make sense in 19th century Britain because the land-owning class was the dominant political and social class. It was simply natural therefore that the people who were thinking about economic problems at that time should have looked upon the land-owning class as being something peculiar. Labor, too, was a separate class, and so were industrial capitalists.

More modern thought--particularly in America--is throwing that out the window and is coming to recognize that there is nothing that differentiates land, basically, from other things. The big cleavage today in 20th century America is not land vs. capital, but labor vs. capital. The institutional setting today is quite different from what it was 150 years ago.

Our problem today is to emancipate ourselves from this "normalistic" thinking that has come to be part and parcel of what is traditionally known as economic theory, or economics, and to adopt in its stead a scientific approach.

What do I mean by "scientific approach"? Well, first of all, we must emancipate ourselves from the idea that there is a necessary "harmony" of economic interests. What assurance is there in William Green's latest statement in this morning's paper, for instance, that it is unfair to freeze wages until wages have had a chance to catch up with prices? Is he right or is he wrong? He is surely right from the point of view of AFL membership,

But what about the national interest? The two do not necessarily coincide. The things that dominate our Congress, for example, are the interests of regions and groups. I am not saying that in any critical way. I am just looking at the facts. That which determines national policy is the resultant of a parallelogram of forces, and those forces consist of innumerable pressure groups and less-than-national interests.

The interests of the Pacific Northwest, for example, are often quite different from the interests of the New England States or the South. It is not necessarily to brand the people or to be critical to say that there are such things as special-interest groups. But these interest groups do not always work in harmony. They are not automatically self-correcting or self-equilibrating. What assurance is there today if a certain corporation or group of corporations has the power which we call monopoly power that they will use that power in the national interest?

The dominant thought today seems to be how to get more without giving an equivalent in return. If you have had any construction work done lately you will know what I am talking about. It is the habit now to practice restrictionism, produce less in order to get a larger monetary return through higher prices.

How can you hold that the economy as a whole will be more productive if instead of expanding the pie--the pie representing total output--we all concentrate on the angle of the piece of pie and say, "The heck with the rest of the pie"? The important thing should be a big pie, shouldn't it? A small percentage of a big pie might well be, and often is, bigger than a big percentage of a small pie. The net result of this competitive restrictionism today is to keep our national output at a lower level than it otherwise would be. I do not know how big our gross national product could be, but I feel pretty confident it could be much greater than it is.

I think it is obvious that in the modern economy the dominant aspect is "overproduction" and surpluses--except in time of emergency, when we are trying to produce for a war, as well as a peacetime, economy. What silly mortals we are to think that there can really be such a thing as overproduction! Just think how nice it would be if we could all get everything for nothing. Of course, there can be no such thing as general overproduction. There can be unbalanced production, that is, too much of certain things and too little of other things. The exchange of goods for goods does not work out in such a way as to keep the wheels going round.

It is not without reason that the problem we call the "business cycle" has become more and more acute with the development of industrial specialization. In the old days, before modern industry saw the light of day, there were panics and depressions; but for the most part they were occasioned by such "natural" phenomena as droughts or bumper crops. Today we

have inflation and deflation. You could devote a lifetime to studying, as the National Bureau of Economic Research is doing, our business cycles, the most complicated of all areas in the economy of today. It involves the meshing together of all these gears that go to make up this complicated economic machine of ours.

Oh, there are new theories today--yes. You will hear about them. You will hear of Keynes. Now, Keynesism is an improvement over the older theory, but it still does not give the answer. By and large, it is the old theory in a new dress with excessive emphasis upon such aggregates as national income and consumption. I will give you one illustration to show the dangers of theories that rely too heavily upon aggregates and averages.

If you were quartermaster and were supplying uniforms for troops and you simply took the average weight and height of the troops and ordered that size, you would not fit any uniform properly to any soldier. Aggregates do not cause anything; national income does not cause anything. It is like trying to control the temperature of a room by placing ice under the thermometer. True, increases and decreases in aggregate can indicate that something within the economy is behaving in such a way as to have certain relationships to other parts of the economy. Such aggregates are useful in diagnosis, but they are poor medicine when they are held to be causative. There are other newer types of theory. There is the so-called "monopolistic competition" school, which tries to prove that there is a certain amount of automatic adjustment among the monopolies that obtain today in so large a part of our economy. It is the old-fashioned classical theory in new dress. We must be careful in defining a concept such as competition. I daresay most people would feel that our economy today is highly competitive. In the man-of-the-street sense of the term, that is correct. In the orthodox use of the term, it is incorrect. If by "competition" you mean merely rivalry, why, of course, there is lots of it. When one tobacco brand advertises against another, that appears to be competition. But, it is quite different from the old-fashioned competition that was held to be all pervasive, impersonal, and self-adjusting.

That is not what the early economists, the classical economists, meant by competition. What they meant was that there are so many rivals that automatically there would be an adjustment of supply and demand in such a way as to bring these returns, such as interest and so on, to a normal rate. For instance, it would be the same sort of difference as prevails on the one hand between, let us say, Ford and Chevrolet or Lucky Strike and Camels, which would be monopolistic rivalry; and on the other, a bunch of farmers producing tomatoes, let us say, for the New York market where there are no trade-marks and no advertising. You do not see Farmer Brown advertising, "Buy my tomatoes. They're better than Farmer Jones'." That would not make sense. Yet, that is what is meant by the orthodox term "competition." Dr. Gardiner Means has termed this "atomistic competition." By "atomistic" he means so many small competitors that no one of them is conscious of being able to control the market.

No one farmer raising tomatoes could feel that, with so many other farmers in the country raising the same product, by restricted output he could cause the price of tomatoes to go up. Yet the U. S. Steel Corporation, General Motors, and certain large labor unions are quite conscious that, by restricting output, they can enhance the price of their product so that the total return will be greater than if they produced more.

That departure, that deviation from the "atomistic" type of competition over to the monopolistic and restrictionist type of competition, or rivalry, is a dominant feature of the economy today. It is something with which orthodox economics is unqualified to cope. Pick up any of these older textbooks and you will see that most of this is relegated to footnotes. If you will just make the footnotes of the main text, and the main text of the footnotes, you will get a better appreciation of the type of organization that prevails today.

This is not to deplore what is happening. If theory and practice get out of line with each other, the practice cannot be wrong. It is the theory that is wrong. Many economists spend much time bemoaning the fact that the economic system does not accord with their own preconceptions. I am not saying for one minute that trusts should be broken up, but we are not going to break them up the way we are going about it now. I am not so sure, even, that we are on the right track. As economists we must adopt the scientific habit of observing facts for what they are and not deploring them, leaving that to the practical applied economist, which is to say the politician and statesman, rather than to the general public to decide. There is today an increasingly popular approach to economics which, in my opinion, is doing more harm than good. I refer to mathematical economics. There are some who are writing on economics who are really not interested so much in the economics as they are the mathematics. I will simply dismiss it with one observation: No mathematical formulation is one bit better than the premises and assumptions with which you start. If you start out with assumptions that are faulty, the conclusions will embody the same false principles--for mathematics is pure deduction. The fundamental premises of most of today's "mathematical economics" are not greatly different from the premises of 19th century classicism. It is dangerous because it looks scientific.

And now I come to the last section that I want to talk about; namely, the central problems of economics today that need to be approached from the scientific point of view, with emancipation from the older prejudices of the automatic equilibrium approach. To those of you who perhaps have not spent many years in this area of thought, it may appear that I am building up straw men, as I said before, in order to tear them down. I assure you that in the halls of Congress the ideas that I have been talking about this morning have a firm hold. There are a great many people who adhere to those old theories. There is a tendency for everybody--and I think we Americans in particular--to jump to the conclusion that if you are not

white you must be black; if you are not black you must be white. Therefore they jump to the conclusion that the best system is one of free enterprise, with no controls, or the opposite of a planned economy.

There are all kinds of faulty thinking with respect to the British economy. For example, there are certain people in and out of Congress who are convinced there is little difference between the Socialist Party of Great Britain and the Communist organization of the Soviet Union. There is, as a matter of fact, all the difference in the world between the two. In Britain they still have the free ballot. If free people want to control their economic life in any way whatsoever, it seems to me it is not our responsibility to deny them that right. The important thing today for us Americans to do is to somehow or other, while preserving the ideals and practices of a free political system--the emphasis of which is upon individual liberty and freedom of action--introduce some kind of "controls" that will prevent our economy from going sour after about every 20 years. It was not many months ago, you will remember, that we were warned of a coming depression; however, we moved the other way. There was a war scare. Inflation, instead, is the order of the day.

Perhaps the countries of the world which have a preference for freedom and that which we call the "American way of life" would be more impressed by our success along this line than they would be by any amount of Voice of America broadcasts. If you will read the British publications you will find I am right on this very important viewpoint: When and if the "bust" comes in America, the British will go down with it. The London economists have been filled with that thought for the last several years--the coming depression in America. They see nothing on the horizon that indicates to them an understanding of these issues on our part.

What is the answer? How do we solve these things? I do not know. How do you solve the problem of squeezing out the middle class? Think of the retired people in this country living on a fixed income. What is happening? They are being forced to the wall. I suppose that if we were convinced, as a people, of the fact that the objective should be an expanded production, there would be some way whereby we could have systems of arbitration, maybe compulsory, that would prevent these terrific industrial disputes; that would prevent restrictionism, or at least modify it. I will give you an illustration to show you how archaic we are in our thinking.

We, in the United States, for the last five years have been pressing the other countries of the world, internationally, for the adoption of the so-called International Trade Organization charter, which started out in 1943. This was a very laudable attempt to try to get the other countries of the world to go along with us in a return to multilateral trade. Well, after numerous conferences with other countries, particularly the British, that treaty has been made into a hodgepodge of conflicting provisions. We

are pushing the charter--and have been pushing it--until it is now pretty much of a "dead duck."

The predilection of our thinking is that we should have a free world economy even though our own economy is full of restrictive controls. We are going along whistling in the dark, telling ourselves we have a free economy at the very time when we ourselves are introducing all sorts of controls. I am talking about tariffs, about subsidies of many kinds, and about labor-union control. We have restrictions, but instead of our restrictions being geared into a national plan that is coordinated nationally, they take the form of a series of group plans or local pressure restrictions.

In the world economy we are advocating that the countries of the world should allow themselves to be buffeted about in the sea of international economic relationships, whereas we ourselves are not prepared to do that, particularly with respect to agricultural products. Other countries think we are hypocrites; they say so in their journals. They laugh at us for it. We are notorious in our failure to mesh together at the international council table one part of our policy with another. For example, when we negotiate on the ITO charter, we do that as such; or on Indochina, we do that as such. The right hand sometimes does not know what the left hand is doing. There is a lack of national consciousness.

Now, I am not saying that in a deploring sort of way. I only wish it were otherwise, but it is not going to be otherwise. This is a big country. It is 3,000 miles across and over 2,000 miles deep, with interests as diversified as those of any continental area that size. It is indeed remarkable that we have gotten along as well as we have.

But I do maintain that there are certain areas of activity where we cannot afford the luxury of being pushed around by other people. Just the other day I saw reports to the effect that the United States should let its foreign policy be formulated by the United Nations. Can you imagine anything more ridiculous than that? Imagine the biggest country in the world leaving its foreign policy to be formulated by, say, Honduras or Guatemala, or the United Kingdom! That certainly does not make sense. These things confront us on the economic side. It is very important that we take active leadership. Today, the challenge to us is much more vital than it was to the nations that preceded us because we are upholding a principle we hold dear to our own hearts--the principle of individual liberty.

Twenty-five years ago I might have given you the answers. I could then have said, "This man should do this." That was the answer--planning. But I have come to realize that we cannot plan on paper alone; people are involved. You and I do not want to be told what to do by straw bosses

RESTRICTED

down the line saying, "Do this," or "Do that?" We must, somehow, get our system working in such a way as to yield a minimum of friction, to soften the effect upon the people who otherwise would bear the incidence of adjustment. Let us take an illustration, not of an answer but of a general problem--housing.

In the last five years the Library of Congress has probably had more requests on housing than on any other single subject. What should we do on housing? Ought we to take off all controls over rent, and so on, and allow housing to adjust itself and let the ex-GI's and other people pay higher rents? Or should we have public housing, in which case the Government would go into the housing business? Or shall we have neither or both? But you cannot have neither or both. You must have one or the other. If your reliance is going to be on private housing, then the sooner the controls are taken off the better. That is the only way the people are going to take the risk of contracting. If you are going to house the people, you must have public housing. That is the kind of problem I am talking about.

Which way should our solution point? By eliminating controls, which is the conservative position, or should it be the New Deal position which leans toward the principle that people should be guided into this, that, or the other thing? If we are going to adopt the first, which is the traditional American stand, then it seems to me we must be prepared to soften the effect upon the people who are hard hit.

If it is the GI, for example, who is hit when rents rise to the point necessary to induce new housing, then perhaps subsidies are in order. But we must not forget that if we bring subsidies into the picture one way or the other, or if we allow wages to go up through this monopolistic type of dealing, we are manufacturing more purchasing power in the economy, which means, in the final analysis, that prices will go up. We ought to have learned by now that we cannot control prices if we do not at the same time control wages.

We should have learned by now, it would seem to me, that at least 99 percent of a war is paid for by the current generation. Debt-financing simply postpones the payment among individuals; but the materiel is used up now; you cannot postpone that. Adjustments are made which of course are perpetuated into the future. If that is true--and I think it is--then any deficit-financing simply creates a heavy overhead debt for future generations which makes freedom of action more difficult. Heavier taxation is then in order. Now, my position on heavier taxation is this: I am all in favor of it provided you exempt me. Probably you are, too. A human characteristic, I think, is to let the other fellow do it. Everybody is in favor of free trade except those who have been producing the goods. If we are going to go in for the job of world leadership in order

RESTRICTED

to protect democracy, it is going to cost us money. It is also going to cost something in terms of standards of living; something in terms of capacity to enjoy the things we like to have.

What worries me is that we are too easily free with our resources. No one quite knows what the figure is today, but we certainly have not been very greatly disposed as a nation toward realistic conservation. I was out in the Pacific Northwest for a few months last year; I was simply amazed at what we were doing to the forests out there. It actually made me feel sick clear down to the pit of my stomach to see how some of these areas are being cut over without being adequately replanted.

That devil-take-the-hindmost attitude is something that can in the long run reduce America to the position in which western Europe now finds itself. That may be what we are headed for. We presently have a much higher level of income and standard of living than any other country in the world. We have always had a high standard of living--and still do--compared with most other countries. I question how long this condition can continue, unless we come to appreciate the necessity of resource conservation.

During the late war I saw people, my own neighbors, evading rationing. Just within the last few months, some of our neighbors were telling us there was a shortage of soap, a shortage of this, that, or the other thing; that we had better hurry up and buy all we could get. Well, I personally am deliberately going to walk if I can't get a car. I believe if we all adopted the attitude of buying as little as we need, of not trying to beat the other fellow to it, and of not trying to beat these hoarders to it by buying all the things before they do, that it would help.

This all gets back to the central theme I am talking about this morning; namely, national economic consciousness. I do not mean "national" in the sense of being imperialistic, but in the sense of the welfare of the country as a whole, keeping our own economic house in order, and always, in every way, not doing things on faith but rather on the basis of demonstrated trust. This means a scientific attitude toward these economic problems; not just to act blindly and say, "Oh, well, individual enterprise means no controls by government, therefore I am against this control." That is not being reasonable; that is just prejudice. Or the opposite kind of faith which says no matter what is the matter we need a lot of controls on the Government's side. That is also prejudice.

What are the answers to all these problems? They are not easy. We are not going to get them out of a textbook. We are not going to get them out of the mouths of politicians or economists. We are going to get them by emancipating ourselves as citizens from our early beliefs and prejudices. That means if you are an antilabor man, you have to forget it and become conscious of the prolabor point of view. Or if you are prolabor you had

better forget it and become partly antilabor. In other words, simply move in the opposite direction from where you have been in the hope that all of us may arrive at a common, mutual ground. That mutual ground is the hope of America and indeed the hope of the entire world.

QUESTION: You mentioned in the course of your remarks the matter of our standard of living, sir, and suggested that we are going toward a lower standard of living in the United States.

DR. PIQUET: No. I said I was afraid we might eventually find ourselves in that position.

QUESTIONER: Well, a number of us here have likewise come to the same conclusion, perhaps before we got here, perhaps since we came.

What I would like to know is, how do we measure the standard of living? We hear about the gross national product, national income, per capita consumption of shoes, meat, radios, and television sets. What would be a good yardstick for measuring the standard of living? I have heard one of our lecturers say it was the per capita consumption of petroleum perhaps or something of the sort. What is a good measure of the standard of living?

DR. PIQUET: Well, again that raises the whole problem of aggregates I was talking about. An aggregate measurement is but one method and is, in fact, almost meaningless with regard to particular groups.

I know, in my own case, what constitutes my measure of standard of living. It is very simple. I know how much money I get. Even though it is greater than it was 10 years ago, I know I have much less in terms of the things I enjoy. I belong to the middle class that is being hard pressed. I think probably you do, too. My wife, the other day, bought a pair of baby shoes at an inexpensive store. I think five years ago she would have paid \$5.00 for them; today it is considerably more. My income has not gone up proportionately anything like what we used to pay for baby shoes 10 years ago and what we pay for them now.

I made a study not so long ago of my own income tax statement. I was comparing my present situation with what it was in 1938. In 1938 when I was getting less money than I am now, I was much better off in terms of the things I could buy. I think you have to segmentize this whole thing statistically.

The wage earner today, particularly the skilled mechanic, is much better off than he was before. We made a study in the Library of Congress just the other day for a Member of Congress. We had a big chart to show the relationship of wages to profits. It was quite interesting. It showed that in 1940, profits increased much greater than did wages.

However, if you looked at the base period of 1941, it showed just the opposite. The wage earner, I think, is getting more, proportionately, in terms of income than he did before.

The best means we have for getting an aggregate statement of this thing would be from the "Consumer's Price Index", the cost-of-living studies made by the Bureau of Labor Statistics, and the studies made by the National Industrial Conference Board in New York. There has to be a sampling base. It is not something like a thermometer in a room where we get up in the morning and say, "Today it's 68; yesterday it was 69." It isn't like that.

I think you mentioned petroleum. Now, I find considerable difference of opinion on this problem of petroleum supplies. My old professor of geology about 15 years ago told us there wasn't enough petroleum to last for any appreciable length of time. However, that same person today says that supplies are almost unlimited. Nevertheless, there is a limit to our petroleum supply. Who knows what is going to take the place of petroleum? Maybe we do not care. Maybe that won't be important 50 years from now. Maybe atomic energy will come into the picture.

I do not think there is any one standard base for measuring the standard of living. If you have traveled in Europe or in the Near East you will agree that most of the people do not have enough to go around. People there do not ride in automobiles; they use bicycles. They do not have a car in every family. They do not have modern plumbing as we have it.

One of the things that troubles me, among my business friends particularly, is that whenever we talk about the American way of life I feel pretty sure we are talking about gadgets. The American way of life means a Cadillac. That is not what I mean by the American way of life. I think the American way of life means liberty, freedom of choice, and the dignity of the individual. I wish when you have some of your other speakers down here who are dealing with this problem of national income that you would put that question to them. Elaborate measuring devices are available. When the index rises from 100 to 101, I have to think of these things in terms of myself. During the war I know the indexes showed there was no increase in the price of things like toys. Well, I happened to be buying for two small children, both at Christmas time and for birthdays, and I know I could not get a lot of this stuff. Although I was paying the regular price, I had to take things made of plastic instead of metal. A wooden express wagon would not stand up at all. Actually, it was a question of whether you could get an express wagon made of steel. There is a deterioration in quality that often does not show up in the price index.

QUESTION: At the end of World War II the government economists were predicting a decline in 1945 or 1946.

RESTRICTED

DR. PIQUET: And I was one of them.

QUESTIONER: However, they missed in that case. They have missed on several other occasions.

Now, if you can control the economy, this question comes up: What do you control, when, and how? Where are you going to get a "superman" who can decide those three important factors of control--what, when, and how?

DR. PIQUET: I do not envisage, administratively speaking, any great difficulty in a planned economy. It is the simplest kind of an economy. The Russians have solved it. Their simple solution for the problem is to put someone against the wall and shoot him or liquidate him. For years the Russians have been doing that. It goes back to czarist days. That is a planned economy--either produce shoes in a certain quantity or be liquidated. It is all very simple.

The problem is not where to get a "superman." Rather, the problem is how to get controls that are constantly consistent with the fundamental principles of liberty. That is the real problem. How do you get democratic controls? There is a big difference, as I said before, between Great Britain and Russia. Great Britain is doing it within the framework of the ballot box.

Our problem is how we can get these big industries, these big concerns like U. S. Steel Corporation, A. T. & T., the Pennsylvania Railroad, and all these big fellows, to behave as they are supposed to. In the final analyses, it is a political problem. The use of controls is simple. My personal fear is too much control rather than not enough.

I know I did not answer your question, but I told you why I can't.

QUESTIONER: Considering William Green's statement and the general political complexion at the present time, does there appear to be any practical way that inflation can be headed off?

DR. PIQUET: I will assume I know what you mean by "inflation"--a rise in prices and things getting bigger and bigger. I think a better way of defining "inflation" would be something appearing in the economy in the way of relationships that results in the falling in value of the money unit. I think that is a much better definition of "inflation." Whatever it is, we know what you are talking about, don't we? We are talking about the wage-spiral going up, up, and up. So far, in America we have never solved it. We have never succeeded in doing it.

The answer to your question is, yes, we can do it on paper. We have controls right now. Freeze everything, including credit expansion. Once you try to control prices and recognize you are in a war economy, that there

are going to be shortages, stop talking about the shortages, and freeze. I do not know how it can be done. That is only a paper answer to the problem. The difficulty is, how do you do that in America?

Of course, a little insight will indicate if you would freeze wages at the same time you freeze prices--you put a policeman in every store to guard the price of every product because that is where your purchasing power comes from--you take a statistical bar and show the proportion that comes from labor in the form of wages and that part that comes from labor in the form of income (that is your big source of purchasing power)--with a full employment situation it certainly seems clear that increases in wages are going to cause increases in prices.

So the answer is not one of economic theorizing. It is not one of mathematical process or logical process. It is one of people. This modern economics we are evolving today certainly contributes to our economic thinking a significant combination of economics and politics. It is possible to make a few key decisions, such as ECA or NRA, in order to bring about a solution.

COLONEL BARNES: Doctor, we have a lot of unanswered questions in the audience. I had one I wanted to throw in, but unfortunately our time has come to a close.

On behalf of the students and faculty I thank you for coming over and not only for telling us what we asked you to, but for doing it in such an entertaining way. We certainly are indebted to you.

DR. PIQUET: Thank you. It is always a pleasure for me to speak to the students and faculty of the Industrial College.

(14 May 1950--350)S.