

RESTRICTED

183

CURRENT AND EMERGING ECONOMIC PROBLEMS OF THE UNITED STATES

8 September 1952

CONTENTS

	<u>Page</u>
INTRODUCTION--Brigadier General L. J. Greeley, USA, Deputy Commandant, ICAF.....	1
SPEAKER--Dr. Howard S. Piquet, Senior Specialist in International Economics, Library of Congress.....	1
GENERAL DISCUSSION.....	20

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GENERAL GREELEY: During the past week or so we have been exposed to a great deal of economic principle and theory. Today's topic is somewhat more specific in this area than the others have been and deals with the problems and the problem trends of the American economy.

Our speaker is Senior Specialist in International Economics of the Legislative Reference Service of the Library of Congress. He is an expert economist. Not only that; he is an old and tried friend of the Industrial College. During the past six or seven years he has been most generous with his time and experience in helping this institution. This morning I feel certain that he will again deliver the goods, as he has so many times in the past.

Dr. Piquet, it is indeed an honor and a pleasure to have you with us once again. The platform is yours, sir.

DR. PIQUET: General Greeley, students, and faculty: Every time I come to talk to you gentlemen, I seem to have an expanded subject. Last year it was "Current Problems in the American Economy." This year I am to talk not only on current problems but also on the ones that are going to become current. That will be a bit more difficult.

For the benefit of those of you who want to obtain some background that I will not have time to present this morning, I believe my former lecture is on file in your library. This morning what I want to do is to repeat only the highlights of what I said last year and try to delve a bit deeper into the fundamental forces, as I see them, that are at work. I think the two together will constitute a unity.

By way of introduction I should like to say a bit on what an economist is or is not, or should be or should not be. I have come to the stage, after pursuing this subject for many years, of becoming rather impatient with some of my colleagues for their propensity to engage too exclusively in deductive model building. There seems to be a great temptation today to utilize the economic field as an experiment station for mathematics. Now, mathematics is all right in its place; but we are not going to solve the economic problems of the United States with a slide rule. The economic problems that are really important are essentially political problems—using the word "political" in its broadest sense, of course. In fact I have come to doubt whether there is such a thing as

"pure" economics. I believe we economists are dealing in only part of the broad field of human relationships and human behavior, and that we must deal with the broad political aspects of what we call economics; that means the bulk of the problems that confront us today. So, when you ask me in the course of an hour to talk about these current and emerging economic problems, what you are asking me to talk about is America, now and in the future, in a realistic world setting.

Economics is not yet a "science"; of that I feel quite sure. Certainly it is not an exact science any more than politics is. That does not mean that we should not have a scientific attitude in dealing with economic problems. In fact, no science is determined by the subject matter with which it deals. It is determined, rather, by the point of view of those who are practicing, or professing, it. Thus physics studies all things from the point of view of forces. One who professes to be an economist must come to acquire the same sense of objectivity characteristic of the physicist or the chemist. He must not introduce his feelings, his religious background, race prejudice, or any other subjective bias into his observations and findings. He is like a physicist except that he cannot himself avoid being a part of the experiment himself.

It is a most difficult thing to remove yourself from your prejudices and to approach the objectivity of a natural scientist. True science is necessarily objective. As I said last year, a professional optimist looking at a half-full glass of water says: "Oh, goody! Here is half a glass of water." The pessimist will say, gloomily, "Look, half-empty!" But if you are a scientist, you would say: "There is a container, a glass, with a capacity of 12 ounces, containing 6 ounces." Let the other fellow worry about whether it is good or bad.

That is the job of the economist, as such. As soon as he introduces his own feelings or prejudices, he ceases to be useful. He blurs the picture. If I happen to introduce feelings of religion into the analysis, I become useless as an analyst. I must try, somehow or other, to get down to the depths of what has happened and to discuss this subject without prejudice and without feeling. Even if I happen to come from Wisconsin, I should not worry too much about the welfare of the cheese industry in making my factual observations.

Our job as economists is to analyze, to predict, where we can, to watch and to point out that if the political powers do this, or that, these will be the consequences. But it is not the job of the economist to prescribe what the Government of the United States should do. That is necessarily a political job. That is the job of the representatives of the people of the United States, the Members of Congress.

RESTRICTED

187

One of the great pastimes of Americans, next to baseball, is criticizing Congress. Now, I happen to be an employee of Congress. I happen to know a few Congressmen and my opinion of most of them has gone up since I have seen them close up. By and large, there are no more extremists in Congress, proportionately, than anywhere else in the country. In fact, I would say that there is probably a smaller percentage of the lunatic fringe in Congress than elsewhere in the country.

If we don't like what Congress does, instead of criticizing the incumbents, we should look into our mirrors and do better, because we are the people. You gentlemen are citizens too, even though you happen to be in uniform. You are the people who help send them there. In the long run we citizens get just about the kind of representation that we deserve. If in your particular district you feel that your Congressman is not representing you adequately, you should kick him out. Instead of that, most of us are inclined to sulk and stay away from the voting booth.

Our job as economists is not to administer the economy. One of the big difficulties, in the early New Deal days particularly, was the placing of economists in high administrative posts and then wondering why things didn't always work out. I have always sympathized with Leon Henderson who knew down deep in his heart that he was trying to do an impossible job--to regulate prices without regulating wages. But instead of quitting, he was a good sport. He was loyal to FDR and he tried to do the impossible. In consequence, economic controls have taken a black eye in the public estimation. Yet we have never really seriously tried controls. We never really wanted to try them. I should think that before an economist accepts a post like that, he would make sure that he is trying to administer something that has some chance of being successful.

That is my introduction.

I am not here to forecast what is going to happen because I don't know what is going to happen. I am not here to prescribe what ought to be done, except as an individual. I have my views. As an economist I think I know what should be done. But I think I can get down to the bottom, to some fundamentals, and perceive with you certain trends that are under way now, which if followed might have certain consequences that are not too good.

I want, first, to discuss the "64-dollar question." After that I want to discuss three "areas of decision," as I call them, where coordinated decisions are imperative. Those three main areas of decision are: first, the international economic position of the United States; second,

RESTRICTED

RESTRICTED

188

the whole problem of the economics of national security; and, third, that which can be summed up by the simple word "inflation," including fiscal policy.

Now, the "64-dollar question," which underlies everything that I say here, is whether or not things are happening in this country today that are in danger of undermining the system of liberty that we Americans are fighting so hard to preserve. I have just come in from the country, from the seashore. I noticed there that those people who build concrete edifices on the beach are unwise, because the tide comes up and the sea water washes the sand out from under them. Before they know it, when they return in the spring they find their houses and steps washed away. The concrete is not so substantial as wood for that purpose. Wood cannot be undermined; concrete can. I ask this question; I am not answering it. Are we using concrete where we should be using wood to defend our liberty?

There are certain forces at work that, unless they are curbed, checked, controlled, have a potential for destruction. Now, that is my fundamental point; everything else that I may say is collateral to it. How we do things--as well as what we do--is the significant question. If we are destroying civil liberties and embracing one form of totalitarianism in order to combat another, we may be cutting our own throats without even knowing that we are doing so.

There are three main "areas of decision." The first, I said, is the international economic position of the country. I don't want to burden you with a lot of technical details. I have just come from 15 months of intensive study of the entire tariff question. The report that I have proposed will probably be published sometime after the general election. I am going to start in with this because I happen to be most familiar with it.

Everywhere you see now, particularly when you read the foreign press and especially the British press, references to the question of "foreign aid or foreign trade"--which shall it be? Shall we continue to pour billions of dollars into the countries of western Europe--and to a certain extent into the rest of the world, but mostly to Great Britain--to enable that country, or those countries, to remain as integral parts of the free world? Or should we, rather, open our markets to their goods on a selective basis to enable them to pay for what they get from us? That is a big question.

It is not merely economic. It is political and psychological, because it has deep national implications. I have friends who have recently been in Europe, and the reports they bring back--mostly unpublished--are not very comforting. Nobody likes to receive charity; and the more one receives it, no matter what it may be called, the more the recipient tends to damn the giver for not being more generous.

4

RESTRICTED

In 1947 I happened to have been deputy staff director of the Herter Committee, which was the European Recovery Program Committee in the House of Representatives. We provided the Congress with elaborate staff studies of a four-year program, based upon studies by the European countries themselves, by their best economists. The plan would enable these governments to buy the food, fuel, fertilizer, and capital equipment that they would need to "get on their feet economically." Nobody was quite sure what that meant, but they did know this much: Had we not done that in 1947 and 1948, the possibility of western Europe, particularly France and Italy, going Communistic was too imminent to be brushed aside. I think I can state, without serious fear of contradiction, that the European Recovery Program has been a huge success so far as the restoration of physical productivity is concerned.

Now, if it had not been for the unpleasantness with the Soviets, it may be that the European Recovery Program would have been enough to put western Europe back on its feet. That is one of the imponderables. But the fact is that since the recovery program started, when the Russian problem loomed large, huge military expenses had to be superimposed upon the economic recovery expenses and measures.

We have been spending since the close of the war, including the period of the Marshall Plan, about 5 billion dollars a year, most of it in the form of outright gifts to the countries in western Europe. That is the price we have been paying in outright dollar grants to keep the Western World intact.

The Administration has consistently sponsored a program of multilateralism, or nondiscriminatory trade. We are proving to the world, by deed as well as by statements, as far as we can do it, that the United States wants to expand world trade and establish something approaching what prevailed in the nineteenth century, when Great Britain was the economic leader of the world and the pound sterling was the international currency. But while we have been doing that, through the State Department and the White House, the Congress of the United States, representing us, the people, has been doing precisely the opposite.

Now, I don't mean to say that through the Roosevelt regime Congress did not support the Trade Agreements Program, because it did. It didn't dare not support it. Every time the President's trade program was renewed, which was about five times following 1937, there was widespread enthusiasm for the Trade Agreements Program in the halls of Congress, for the obvious reason that the representatives in Congress represented their districts, and the dominant powers in the districts are interested in and do not want to be hurt by imports. We Americans are often suspicious of foreigners and, by and large, we don't like imports. That is a bold statement, but I am reporting what I see and what I hear in various parts of the country.

RESTRICTED

We are willing to give our money away to foreign countries, but we don't want their goods to enter our country. One of the attorneys for the fig people in California, in a recent hearing before the United States Tariff Commission, stated that he wanted to continue foreign aid to the countries of the Mediterranean that produce figs, that he doesn't want to cut off their aid; but neither does he want their figs to come to this market. He thinks the cost of helping those countries, Turkey and so on, should be spread through the taxpayers. He wants to use your money and my money to do it. He thinks that is more equitable than allowing competition between the foreign and domestic fig producers.

I question whether this is an altogether rational approach to the international economics problem. For at the very same time that we have been talking so loudly and so boldly about restoring a multilateral trading system (and this doesn't mean free trade; what it means is lower tariffs and absence of discrimination in the way of quotas) Congress has been reticent about using its power to remove the duties in order to stimulate imports. Congress has been imposing new barriers against these imports since 1948.

In the Defense Production Act of 1950, of all places, Congress inserted the already notorious "cheese amendment," which provides that the Secretary of Agriculture shall have, in addition to his other powers over fats and oils, the power to restrict the importation of cheese whenever in his opinion--not the opinion of the Department, not the opinion of Congress--it is necessary in order to maintain either the existing level of production or a level which in his opinion should be maintained in view of the Defense Production Act. That is one-man government, by a man representing one of the most powerful groups of special interests in the United States.

As originally passed, and revised, the cheese amendment enables the Secretary of Agriculture to keep out genuine French roquefort cheese, which we don't even produce in this country. (We produce only a poor imitation of it.)

It is the same with Swiss cheese. My wife bought some well advertised delicious Swiss cheese, made in Wisconsin. But it tasted no more like real Swiss cheese than a slice of bread. Yet you and I are not permitted to buy genuine Swiss cheese in the stores today, because we do not allow it to come into the country.

The same applies to Canadian Cheddar cheese. This was remedied, in part, by an amendment to the Defense Production Act in 1951 which provides that the Secretary of Agriculture should be more lenient with regard to those cheeses from abroad that are higher in price than the domestic product.

RESTRICTED

Similarly, Congress has amended the Trade Agreements Act by adding the so-called "escape clause." I don't want to spend too much time on that, but it is interesting. This clause provides that if, as the result of any concession made in any trade agreement, a producing group feels that it is being injured or is threatened by injury, in whole or in part, by a reduction in duty granted in any trade agreement, they can appeal to the United States Tariff Commission. That body, in turn, reports to the President who can withdraw the concession. The law allows no discretion to the United States Tariff Commission.

If the President should have the great audacity to disagree with the Tariff Commission, he must explain to Congress, to the House Committee on Ways and Means, and the Finance Committee of the Senate why he did not follow their recommendation. President Truman had the courage to overrule the Tariff Commission in the case of watches. In doing so he said: "We must interpret this law in the light of the larger interest of the country in relation to other countries and its obligations to other countries." He did the same with garlic.

The existing law is tight and rigid. In the case of fur felt for making hats, which comes from Italy, we actually upped the duty to keep imports out. There is Italy, one of the sore spots in western Europe, on the verge of returning to Fascism, and we seem determined to do our best to stimulate it. If we want to hold Italy as a member of the family of free nations, the way to do it is to help the Italians sell their merchandize. If we allow Italian hats and Italian cheese to come in, we demonstrate by deed that we are food neighbors. The same applies to British bicycles, motorcycles, cutlery, leather, and pottery. If we want those key countries to hold together, we must allow some of their goods to enter our country on an even competitive basis, even though it might hurt somebody in this country.

This does not mean however, that we should sit back idly and say, "It is tough, but our producers will just have to fight this out in the long run." If those domestic producers who are hurt (and they will be few in number, I assure you) can show injury, of course they are entitled to relief of some kind by the Government. But my own predilection would be--and I say this as an individual rather than as a professional economist prescribing--that this would be a low price to pay to secure the good will of these people. I would rather do this than do it by handing out billions of dollars to them in the form of direct gifts. I would rather pay out those billions--and I think it would be much less than those billions--in the form of relief payments, extensions in social security, and retraining of displaced workers.

RESTRICTED

192

Let me give you an illustration. Leather gloves are made in Fulton County, New York. But, we can't possibly compete with the hand-made French leather gloves. It is the form of the gloves. They are cut by hand. It is a father-to-son proposition. Yet, we have a high duty on leather gloves in spite of the Trade Agreements Program. If those workers were displaced, a large number of them could move to Schenectady, not far away. They are short of labor in Schenectady. There is a defense program going on there and they could use this additional manpower.

How do you do these things in a democracy? There's the rub. Let's go back to my "64-dollar question." How do you do this without jeopardizing the individual freedom that we Americans prize so greatly? Our people are free to do what they want to do. Are we going to pick people up and say, "You do this"? Will competition do the job? Do we really have competition or are we afraid of it?

A very important aspect of the international economic picture is the difference between the United States today and Great Britain a hundred or so years ago. So many people, the newspaper people--some economists too--who read the "New York Times" and prescribe on that basis, say: "We must do what England did in 1850. We should go on a free trade basis. That is what England did when it repealed the Corn Laws and the Navigation Act in 1850. It is obvious that it would be to our best interest."

Sure England did, but look at the difference! England was a small island, a maritime empire, dependent upon outlying areas, overseas areas, for both raw materials, food, and markets. All Britishers realized by that time--after all, industrialization in England had gone pretty far--that if they were going to have cheap labor, in order to make manufactured goods to sell abroad, they had to have cheap food; and that meant they shouldn't have high duties on imports of foodstuffs. The growing industrialization in England enabled it to shift the balance away from protectionism into free trade. But it was to the interest of the people. The man in the street realized that if his country didn't do that, he would have difficulty getting enough food to eat.

We in the United States need but few imports. We need some strategic materials and we need them badly--such products as tungsten, chromium, and nickel. But in terms of total volume we can get along with little foreign trade. To start with we are a continent, not a maritime empire. We are a continental mass. If we had to do what England did in 1850, it would require national reasoning, national conscious choice, which England didn't have to do. It just came naturally to the English.

RESTRICTED

England did it by force of political pressure. We in the United States today don't have those political pressures. I have seen only one place in the last five years where one pressure group began fighting with another pressure group and the national interest happened to come out on top. That was with regard to fresh tuna fish. A bill was introduced to slap a duty of 50 percent on tuna. The west coast and the east coast began fighting over it. One Senator opposed the Pacific Coast's proposal. The industrial groups themselves had different interests, because some people came and others didn't. The end result was that they locked horns and the bill was defeated by a narrow margin.

Not once in the whole 30 pages of debate in the Congressional Record was the consumers' interest even mentioned. The Japanese interest was mentioned in passing. The main interest was the pocketbook interest of the east coast as opposed to the pocketbook interest of the west coast.

How to get the national interest even considered is the question. If you can call enough right and wrong numbers, you might get the number that you want. That would be all right. But to expect the United States, huge country that we are, with the spirit of individualism as pronounced as it is, to have the national mental discipline that it takes to raise the economic I. Q. up to that level is expecting a lot. As I said earlier, I am not going to give you any answers; I am just outlining problems.

But it seems to me that the job of educated citizens is to see to it that these national interest questions are brought into clear focus. No democratic country in the world, so far as I know, has ever been able to do it. Maybe a small city-state might be the place to do it, or a small country like Switzerland or England. But the United States is so big, its interests are so diversified, that the problem seems almost insoluble.

I just want to cite some figures (reading from a chart which was not reproduced). This represents the balance of payments of the United States internationally. In other words, the right side represents how much we took in from exports. This is our income from the rest of the world in 1950. This area down here, with the jog in it, is what we paid out for imports. There is a gap in there of over 4 billion dollars. That is the amount by which our exports exceeded our imports. Roughly speaking, that is the so-called "dollar gap" or dollar shortage.

That difference of 4 billion dollars was made up in 1950 with foreign aid gifts. That little jog in here represents my estimate on the basis of the 15-month study, commodity by commodity, assuming that tariffs were to be suspended and quotas were to be suspended of how much our imports

RESTRICTED

194

would have increased. Currently, as of 21 March 1952, 45 cents on the dollar could have been paid off on the basis of my assumptions (that I haven't time to go into).

But that shows how much goods have been kept out. Every time we gave a dollar, we could have saved maybe as much as 45 cents of it; that is, on the assumption that we would suspend all tariffs and quotas. If we helped only those countries that need it, like the United Kingdom, France, and Italy, it would, of course, be less than that.

Here is another chart which shows how the individual countries would have been helped (Chart was not reproduced). It shows that in the case of Great Britain, if we had allowed its imports to come in freely, the increased imports would just about have equaled its dollar trade gap in 1950.

Now let us pass on to the next subject. This whole question of the international economic position of the United States, which involves politics, psychology, and international relations, it seems to me, is at least half of the entire picture. If the United States doesn't stand together with the rest of the free world, but allows western Europe to fall into the hands of the Soviet Union, we will not only have changed our policy, but will have weakened ourselves tremendously. We have made it clear, it seems to me, that as a people we stand for the principle of collective security. Otherwise we would not have given away those billions of dollars in foreign aid.

Now, if by any chance western Europe should be abandoned by us and fall into the hands of the Communists, let us not forget that the industrial potential of the Soviet orbit would then be increased to a point about equal to that of the Western World. Take steel as an example. You will see from the figures on this chart that, if the steel capacity of western Europe should go over into Soviet hands, Soviet production would then be about in balance with the production of the Western World.

But, remember, we don't fight wars with refrigerators and television sets! We must have guns, tanks, and planes. As you may know, at no time throughout the last war did Japan have steel capacity of more than 8 million tons. But look what the Japanese did with it! It is not only a question of having the production capacity. It is also a question of using that capacity intelligently, of having it mobile enough, divertible enough, so the instruments of war can be made when and where they are needed.

That leads me to my second main area and that is economics and national security. Since I have mentioned steel, I might as well start in with steel.

RESTRICTED

There is no industry in this country, or any other industrial country, that is as important as the steel industry. "Nothing is made without steel." That is the motto of the American Iron and Steel Institute, and I heartily agree with it. No matter what you look at in the way of manufactured products, somewhere along the line steel is necessary. After manpower, it is the "number one" bottleneck. So when a steel strike occurs, as it did just recently, it arouses fears in the minds of people who know what it can mean.

In this particular steel strike that just recently ended, we had enough steel inventory, fortunately, to tide us over. There was no serious interruption, except in a few specialized lines. But just watch this winter and next spring--the chances are that there won't be enough ore coming down through the Great Lakes. When the steel industry is shut down, the ore boats stop running. Then the Great Lakes get frozen over and the ore boats can't run. No more ore will be received unless it is shipped by rail and there can't possibly be shipped enough ore by rail to make up for what was lost during the strike.

We have a capacity to produce steel now, I think, of about 105 million tons. That is actual production, which means a capacity of closer to 110 million tons. Three years ago the steel industry said that such expansion was impossible. It said that we did not need it and could not do it--a former official of Bethlehem Steel told me that. The industrial mind, the business mind, the human mind, is tied down by the shackles of traditional thinking. Nothing is impossible if we want to do it. We could produce much more steel, I am told, if only we had enough beehive ovens. Well, why not build them?

It is possible to increase capacity everywhere desired, depending only on three things: raw materials, manpower, and the decisiveness of your decision. When the President of the United States suggested (a year and a half ago, I believe it was) that if the steel companies didn't expand production, the Government would have to step in and build plants, people laughed at him and called him a socialist. But, that was one of the times when he spoke good common sense.

With regard to manpower, what do we do when we need military help? We have reserves, don't we? But when we face the problem of industrial capacity, our number one bottleneck, steel, we think that everything has to be done by the private enterprise system. Why? If the steel industry, representing private investment, won't undertake the financial risk--and why should they?--of preparing for the industrial side of war, should not the Government itself step in and do it?

The steel industry well remembers that in 1931 and 1932 it was running at less than 15 percent capacity. If it should now greatly expand

capacity, it has visions of it some day overhanging the market. Steel representatives think they can see into the future. What happens to their expanded capacity when we reach the "plateau," after they tool up and we have sufficient guns, tanks, and planes in production, and you are not tooling up for the purpose of "making the hump," so to speak? Then what do you do with the excess capacity? It becomes a wet blanket over the whole industry. So there is no reason why you should expect any industry representing private investors' money to take that great risk.

What is wrong with having official reserve steel capacity anyway? It is thoroughly workable. We did it with synthetic rubber. I happen to have worked with the Inter-Agency Rubber Committee, the group that drafted legislation for the synthetic rubber industry back in 1945. We now have stand-by synthetic rubber plants in mothballs, so to speak. We can put steel mills in mothballs. The trouble is that it takes steel to make steel.

In 1940 when we suddenly found ourselves plunged into a super defense effort, particularly in 1941, when we were actually in the fighting, we didn't have that steel to spare to build steel mills, particularly heavy plate. The time to prepare for war is in time of peace. We cannot afford to wait until we are in it and then start to think about it. Steel is so basic that we just can't afford to wait until that time comes.

My personal predilection here, not as an economist but as an individual, is that it would make good sense, if we don't actually need this steel now, to produce a little more than we need and put it away as a reserve. The trouble is that the industry would oppose such tooth and nail, because it figures the Government might someday use it as a weapon to break a strike.

Now I come to my "64-dollar question." How do you do all of this in the framework of individual freedom? How do you do this and still give assurance to the people of the United States and to the steel industry that the Government will not use it as an industrial wage-dispute weapon? Harry Truman didn't mind taking over the steel mills. If that can happen, certainly this other thing could happen because it would be much milder.

No Congress can bind its successors. No Congress can assure the people that a subsequent Congress might not do something that they don't want to be done. But it seems to me that it would make good sense from the national point of view. When I was a kid and we had snowball fights, we always had some snowballs in reserve. It made good sense. But it is not being done now with regard to steel.

Manpower is next. One Senator, right after the Korean outbreak in July 1950, said, "We need 6 million men in the Army by next December." That would have been within six months--6 million men. That was utterly fantastic. It didn't make sense no matter how you looked at it. In the first place, we don't have enough men to do that. If we had taken 6 million men in six months, it would have disrupted the entire industrial machine.

The Commissioner of Labor Statistics has said that we can build up the armed services to 2.5 million men without occasioning serious repercussions upon the domestic economy, except with regard to certain professions or certain specializations. Over-all it would not be too difficult. We can work longer hours (which is not so easy politically) and bring older people in, and so on. But when we move beyond the 2.5 million level, we interfere more and more with the industrial machine. He shows that when we reach the 7 million mark, we encounter difficulties. Beyond 7 million, unless a superhuman effort is made, we actually cripple ourselves in terms of total strength, because we have taken so much out of the productive machine to put men into uniform that they can't be supported by the men and women back in the factories.

I bring this up to show that it is easy to make bold assertions, and courageous statements, such as "Put everybody in uniform" but that such assertions don't always make sense. We must not forget that in the struggle with the Soviet we are vastly inferior in terms of numbers. The Russians have much more manpower than we have and they are not blessed (or damned, depending upon the point of view) by feelings of individual liberty and the right to an eight-hour day.

Now, you certainly must admit that once we wake up, as we did following Pearl Harbor on 7 December 1941, or during the First World War, we do a mighty fine job. "Nothing," as Woodrow Wilson said, "is more powerful than democracy aroused." But I can't help but feel that next time we might not have time in which to wake up. So when I think and feel and talk on the position of the United States, I cannot help being convinced that the underlying theme must be economic, as well as military, preparedness. Steel and manpower, I repeat, are the two basic industrial bottlenecks.

Add to these the question of oil. We, the United States, the Near East, and South America are the oil producers. We are also the greatest consumers. Until a few years ago we produced more oil than we consumed. At the present time, however, we consume more than we produce. We have become a "have-not power" in many respects, including to a certain degree petroleum.

As I said in my lecture to you last year, it would seem to make good sense to have a reserve of oil. If Middle East oil supplies should be

cut off--and the last time I was here they were so threatened because of the Iranian situation, and it is not much better today--we would be seriously handicapped. The Middle East is in the path of conquest of the Soviet Union. Whether the Soviet Union needs the oil or not, it certainly would do its best to deny it to us. And if England and western Europe were to be denied access to Middle Eastern oil, there are only two places to which they could turn for supplies; namely, the United States and Venezuela. And that, according to my way of thinking, means that we ought to be stockpiling some oil. How do you stockpile oil? You just don't drill for it; you leave it where it lies--in the ground and you import all that you can.

One of my colleagues had the audacity to suggest this thought in public just about a year ago. And was he lambasted by the independent oil producers, who were afraid that increased imports from the Middle East would cripple some of the independent oil wells of Texas, Oklahoma, and California. Above all else they want to produce oil and keep out supplies from the Middle East.

Here again, we observe a conflict between ordinary horse sense and the "pocketbook" interest. The national point of view certainly should be a powerful interest, but I am afraid that these powerful interests are thinking mostly of their pocketbooks. If they could see a little further, they would realize that even their own self-interest would indicate that we should stockpile some petroleum.

Then there are the strategic metals--nickel, tungsten, chromium, and copper, together with some of the "trace" minerals that are less well-known, such as columbium, titanium, and molybdenum. Steel is the skeleton, oil is the blood, and these minerals are the hormones and vitamins of the body economic. We have to use them, like tin, in some modern munitions. Without them we would not have alloy steel. We are very deficient with regard to many of them.

In this field we are dependent upon imports, not in terms of huge volume, but in terms of strategic necessity. We have already started to stockpile them. But when we decided to stockpile tin we went at it like a bunch of drunken sailors. So the price of tin went up. We were surprised and proceeded to "kick" about it.

If we really wanted tin, the thing to do was to sit down with the producing interests (British) and work out a program with them and their cartel. But we are against cartels. Therefore we would have nothing to do with them. We didn't seem to appreciate the truth of the saying, "if you can't beat 'em, join 'em."

RESTRICTED

199

Those are the four most vital problem areas--manpower, steel, petroleum, and these strategic minerals--where decisions need to be coordinated. Last year I called it a "master plan." I changed that because of a question that was raised by a student afterward. The word "plan" is sort of unclear, especially "master plan," although it shouldn't be. It is a common-sense word. I have a friend who is an official in the Defense Production Administration, he told me: "We have marvelous programs--tin programs, steel programs, etc.--but they are not geared together into over-all coordination of manpower, steel, and all the rest. What is missing is a master plan."

But the plan must be created within the framework of democracy. A planned economy, of course, is easy if you can have power behind it. Hitler had no trouble getting his master plan across. Neither has Stalin or the Politburo. But we don't want that kind of plan. Our challenge is much greater than theirs. We don't want to use force. We want to substitute intelligence for that, together with a patriotism that goes far beyond personal reward.

Our big weakness is complacency. It is easy not to be bothered about inflation. My wife, every time she hears me speak in public (I don't let it happen often) says: "Why did you raise all those disturbing questions? Why don't you give the audience some answers?" I assure you that if I weren't disturbed by these questions, I wouldn't be here this morning.

I think that you too should be disturbed over them, not on an emotional basis, but by virtue of ordinary hard common sense. When I see my own country drifting and I don't know the answer short of the very embracing control power we are trying to avoid, namely, conformity of thought and dictatorship, failure to distinguish between liberal thinking and communism, and so on, this, sort of thing is dangerous.

I see more and more among my colleagues a reluctance to testify at loyalty hearings, because they are afraid of recriminations for having testified. That is intolerable. Every one of us must be not only free, we should be obligated to tell the whole truth about anybody at any time when we know anything about it. But fear is displacing reason and it alarms me. Economic problems and their political and psychological trends and aberrations cannot be untangled.

The third problem, and now I must proceed more rapidly, is the whole question of fiscal policy--inflation, deflation, and the rest--that we have to worry about. I have just examined the President's midyear Economic Report. What does it say?--on this hand inflation, on the other hand some deflation, or maybe we won't have deflation. Anyway, we should be loyal citizens and not talk too much about depression. I am exaggerating slightly, but not much.

RESTRICTED

RESTRICTED

200

I don't know which way we are headed beyond the immediate future. But, I know this much: We have been and still are, in the midst of a period of fairly rapid inflation. What do I mean by inflation? Roughly speaking, I mean rising prices but that is very rough. Inflation is sort of a jag. It is so much easier to do things, such as carrying on the cost of the national defense program by borrowing, than it is by taxing that, before we know it, we have put into circulation more money than there are goods.

I don't know which comes first. Sometimes the money issue comes first, with credit included as money. Sometimes rising prices come first. But I know that once it is started, it becomes a psychological phenomenon. The effect becomes cause, and the causes become effects, and the spiral is under way. The cost of living goes up, which means that the unions plead sufficiently for higher wages. Agricultural interests seek the parity principle; so does labor. Everybody is doing it, so why not I? So, you try to tie your wages into the cost of living. But, of course, as everybody does this prices go up and up.

I speak feelingly on this subject. I just figured out, coming in on the train last night--and got so disgusted that I stopped--how badly off I am. I find I am even worse off than I had thought.

If you will look at the President's Economic Report, you will see that the gross national product of this country is stupendous. We had a gross national product--which means roughly the total output of goods and services produced--in 1938 of 84.7 billion dollars. Today it is 329 billion dollars, a net increase of 289 percent. But if you deflate that by the value of the dollar--which according to the National Industrial Conference Board, and which is very reliable for this sort of thing, was a 57-cent dollar in 1951, because it had a purchasing power of 57 cents as compared with the 1938 dollar--the gross national product then figures out, instead of having a net increase of 289 percent, a net increase of only 121 percent. And there has also been an increase of the population of 18 percent. If you bring that down to a per capita basis, it represents an 87-percent increase. In other words, each one of us, if we were to share equally in the total increased productivity of this country today, should have 87 percent more in terms of real goods than we had in 1938. How many of you have it? I don't, but some people do.

The tax on personal income on a percapita basis today is about 66 percent higher than it was in 1938. That is on a per capita basis, allowing for the price rise. In total the country is 66 percent better off after taxes. But to me it is "eeny, meeny, miney, mo"; who is getting it, because in my case, although I am now receiving more dollars than I ever did before, I figure I am worse off by 26 percent than I was

RESTRICTED

in 1938. People may not realize it, but the retired and fixed income groups are suffering even more than are we white-collar workers. They are 43 percent worse off than they were in 1938. Farm proprietors are 102 percent better off. The wages and salaried group, of which I am a member, the men who are working in colleges on salaries, are supposedly 128 percent better off than they were.

If in the process of inflation and deflation we all went up or down together, there wouldn't be much to complain about. The trouble is that in the process of going up or down there are tremendous lags. We have abstained from taxing on the basis of ability to pay, in order to tax people who are less able to pay. The fixed-income group, the retired people, people with salaries--we are the ones who are bearing an undue share of the financial cost of the defense program.

Inflation doesn't evade the cost, because the defense effort, like the cost of war, itself is borne by the current generation. You can't postpone the real cost of war. All you can do is rearrange the claim checks so that in the years to come the bondholders can collect from future taxpayers. But the real cost to the Nation as a whole is borne here and now.

The trouble is that the eventual cost is the trend toward discouragement. It is that in the process of financing ourselves by this deficit method we seem to be doing our best to "squeeze out" the middle classes. That is the most serious danger of all, for in large measure the strength of our democracy in the past has rested upon the strength of the middle classes. I will admit, however, that the poor are not getting poorer. They are getting richer.

It seems to me that what is happening, although I can't demonstrate it precisely, is that, although the lower groups have come up, the upper level groups have gone even higher. There is a big sag in the middle and it seems to be getting bigger and bigger. That is where the danger of deflation comes in, because the cost of labor is getting higher. I can't afford to pay labor any more. I paint my own house and I do many of my own repairs, because I find that, even if I do succeed in getting a carpenter to work for me, I can't get a full day's work out of him without paying overtime.

I am not saying this facetiously, because labor has acquired the economic bad habit that industry had 25 or 30 years ago--the habit of monopoly. Even agriculture has sought to obtain it through the parity system. The three big pressure groups--labor, agriculture, and some industries (not the little cats and dogs that I have on these charts, like fur felt hats and cheese) these big industries long ago discovered the principle of keeping prices high in order to get more money for less

RESTRICTED

work. The psychology of the people is not too healthy; it is, "Let me get mine while I can. Give me higher wages, a shorter working day, and less work." That is what the French did in 1940, and it was tragic.

This is my "64-dollar question." Is there something happening here, largely psychological, a habit of thought, our behavior, signs of a soft nation, a modern Rome that is decaying at the roots? I hope not; I hope that I am wrong. But I think I see it, and I think the answer lies in a revival of national patriotism, a revival of the willingness--the desire--to work hard and to do a good job!

I bought a new automobile a few months ago. It resembles a tin can with an airplane motor in the front. It is a beautiful motor but the body is a hunk of junk. The paint on the fenders is already starting to crack and the chromium is no good. Anyway, why should there be chromium on an automobile when we need that product for chromium steel? The chromium is so thin that it doesn't make much difference, except that they have to have a nickel base to put the chromium on, and nickel is mighty scarce and needed for jet planes. But try to buy a car without chromium. They say: "That is out of stock. You'll have to wait six months to get the one with little trimmings." It is our psychology that is wrong. Therefore the answer is deep and difficult.

Now, on the fiscal side--not inflation, but on the fiscal side-- I just want to add a little bit. A single person today in income tax pays more probably than he did at the height of World War II. Every second in a 24-hour day the Federal Government spends as much as a married man with two children pays in Federal income tax--2,700 dollars. That is a lot of money. The "take" of Federal, state, and local taxes is approaching 73 percent of the total national income.

You say: "That is all right. So what? Where is the danger point?" I think it is when you come to the point where you don't worry about taxes, because then the chances are you have lost ambition. If every time I get a dollar I know Uncle Sam will get 50 percent, why should I work so hard? Maybe I should give some of my income to charity organizations and church organizations.

In fiscal 1942 per capita--every man, woman, and baby--paid 472 dollars in taxes. In 1900 it was only 2.88 dollars. Here eight years after the war, taxes are 15 percent higher per person than they were at the peak of the war. We have a budget of 85.4 billion dollars for the current fiscal year, of which the military establishment is taking 51 billion dollars, or 60 percent. The housekeeping cost, the actual cost of government, is 15 billion dollars. Those figures are at first alarming. We must relate them, however, to national income, to gross

RESTRICTED

national product. In terms of our gross national product that is not so alarming. The alarming thing is these effects that I was talking about--of certain groups of people being squeezed out.

What is coming--inflation or deflation? I don't know. The forces of inflation are progressive because once a government embarks upon deficit financing, it is the hardest thing in the world for it to pull itself out of it. Witness the fight between the Federal Reserve System and the United States Treasury, the Eccles-Snyder battle. The Treasury's policy was to keep interest rates low. That is inflationary. The way to keep expenses down is to keep the interest rate low. That is the Federal Reserve's idea of serving the Nation. Mr. Eccles spoke out and said they must keep this inflationary spiral from going higher, through credit and other financial controls.

Once a government finds itself in that position, it is going to do all that it can to preserve its position. Of course there are these other built-in devices for inflation--the escalator provision, agriculture's parity provision. There are also increased pension claims against the Federal Government.

The biggest force towards inflation, however, it seems to me, is government financing itself. On the other side there are some deflationary things that I would like to talk about. If this big middle sag gets bigger and bigger, so that we have business without buyers, people without adequate purchasing power--and there are signs that this seems to be starting to generate now in the field of certain hard goods, like television sets and radio--that may be a signal; it may not be. But when purchasing power starts to contract, the Government steps in and tries to take its place. A very feasible way of doing it is by foreign aid. So the result is a strong force for the continuation of inflation, and yet the course of history shows that what goes up must come down.

I think that what has been inducing the Soviet group to be in favor of inflation for the Western World is that it is not the inflation that we need fear, but the deflationary aftereffects. I fear inflation for just this reason. My fear of inflation is not so much the danger of the inflationary behavior. It is the discontent that comes afterward, the subsequent downswing.

I could go on for quite a while longer, but if I have made clear my main theme, which, I repeat, is that what is needed is a coordinated set of decisions, with all these things related to one another, and done somehow or other in a framework that is consistent with democracy and freedom, the time spent will have been worth-while. No country in the world that I know of has done that. England has come pretty close to it but has done it by semisocialistic rule. I am not advocating that for America.

RESTRICTED

I think that the United States has to come out and make its own decisions, its own plans. We can't sit back as the most powerful country in the world and simply passively accept control and leadership. That is not enough. I think it is a marvelous thing that since 1940 we have done as well as we have. But we are like a small child. If a boy does a good job, I give him some credit and I am going to do it now. But I don't give him too much praise, because I want him to feel discontented, at least enough so that he will want to go out and do better.

We have grown up rapidly. We have not had the centuries in which to grow that England has had. We have to accept world leadership almost overnight. That is why this is such a terrific challenge. That is why I think it is important to present these questions to gentlemen like yourselves, because you are among those who will be in positions of leadership in the years that lie ahead.

QUESTION: What would you suggest that the people of this country should do to further the real awakening which you mentioned in your talk that might alleviate some of this decadent attitude people are falling into?

DR. PIQUET: I don't have any pill or simple cure but I have two ideas. The first one is that I think we need an interest on the part of some people who have lots of money in giving some of that money to support some popular education. The trouble with so much that has occurred so far has been that the donors have had preconceptions, trying to prove this or that. I should like to see the Nation become interested in intellectual problems. We need to educate the public by debates, forums, newspapers, setting up debates on the radio, in moving pictures, to present the picture to the American people.

I think the American people are essentially intelligent. Their economic I. Q. is not too high, however. I have heard of some things that are going to happen. In the meantime the President's Advisory Board has made some detailed studies of the relationship between foreign trade, for instance, and our foreign trade policy.

The second one--and we are already making a step in the right direction--is the suggestion that ex-Presidents serve in the Senate without vote. If there were also some way whereby we could have in the Congress of the United States, particularly in the Senate, a small nucleus, say 5 or 6 Senators and 10 or 12 Congressmen, who would be elected by the country as a whole, they might serve as a nucleus around which the national interests as opposed to narrower geographical interests could gather.

Those are two things I can think of. But I don't know how to take a great people like ourselves and overnight transform them into a highly

RESTRICTED

literate people, economically speaking. But I know that we are not going to get solutions until we recognize the problems.

QUESTION: You gave us a clear explanation of the way inflation hits various groups. I wonder if you would care to explain in the same way what the effect of deflation would be on various economic groups.

DR. PIQUET: I lived through the last one, although I was younger than I am now. But I was better off personally. The middle income group was better off, because they were on a salary basis. I remember in the depths of the depression, in 1931 and 1932, that I was awfully uncomfortable, more so than now. I didn't see any money. Even though the prices were low, I didn't seem to have any cash.

I think the big difficulty in a depression period is the undermining of public morale. It is a terrible thing to think that you may be selling apples tomorrow. And, of course, that feeling perpetuates itself. If you feel you may lose your job next week, you had better not spend any more money than you have to. And that very process of holding back and saving rather than spending means aggravating the downward spiral.

Now, so much for the fiscal problem. It is true that in the depth of the depression period work held up pretty well. The whole inflation and deflation question was one of rain checks and price tags. It was not only a question of people not being able to get work. Most people did get work. It was largely because a greater accent was placed on a minus as opposed to a plus psychology. They tell me it is like a dope addict; that you have a feeling of exhilaration, with a terrific depression following it. But maybe if you just wait a while, you will find out.

COMMENT: The remedies that you propose are excellent, but, totaling them up, I find at first glance that stand-by steel plants, stand-by oil reserves, and giving some sort of subsidies to the interests that are hurt by freer trade, all amount to a higher cost of government. The limitation to paying that cost in terms of taxation or in terms of reducing incentive brings you back to borrowing.

DR. PIQUET: You win. That is not a question, I take it, but a comment and it is well taken. I accept the criticism.

Of course, if these things were done on a pay-as-you-go basis, I think they would be cheaper than what we are now paying. Isn't that the comment or rejoinder to yours? I think we could do it for far less than 5 billion dollars a year. I haven't figured it out. I should like to attempt to do that in my next tariff study. I am going to take these industries and see how much it takes to buy them out; to see if we can do it for less than 5 billion dollars.

RESTRICTED

206

QUESTION: You indicate a belief that there should be some device for coordinating all these programs of the Government. You quoted your friend in DPA as being perturbed because they were not. What procedure or method has been evolved for putting together all these measures and then making these wise decisions that you talk about?

DR. PIQUET: None that I know of.

QUESTION: In other words, you want a planned society without having the means of planning it?

DR. PIQUET: That word "planned society" troubles me.

QUESTION: "Coordinated."

DR. PIQUET: "Coordinated." That is better I don't care what you call it, but as soon as you set up a central planning bureau in this country with power to control, that would be a politburo. That is dangerous and is what we don't want.

I don't think England has done that. From what I have heard from observers on the scene, their criticism has not been of compulsion. It has been the opposite. The labor groups have been so powerful that they have soldiered on the job rather than being told where to work. It has been failure to work rather than compelling them to work.

But, nevertheless, they have done it by democratic means. If they hadn't done what they have done, I think they would be in a worse position than they are now.

QUESTION: You said that what we need is to coordinate these jobs, which assumes we have a way for coordinating them, doesn't it?

DR. PIQUET: No, sir. It assumes precisely the opposite. I think it is so important that we should be aware of the need for something of the sort. The closest we come to it is probably in the congressional committees.

QUESTION: It seems to me that there are some trends on the immediate horizon that might be depressive as far as this inflationary thing goes that you are concerned about, namely, the leveling off the military assistance to Europe and possibly a change in the Administration that might take place this fall. Would you care to comment on that?

DR. PIQUET: I have been greatly impressed in the Presidential campaign to date with the excessive amount of platitudes that have been used. I don't think either candidate has really faced up to the basic economic issues.

RESTRICTED

RESTRICTED

207

But I agree with you that a new Administration, whatever it may be, Democratic or Republican, will certainly be aware of the fact that it should give the impression at least of doing something differently. People do want a change. That might be our best hope. But I don't think it is a question of whether it is Democrats or Republicans. I think we need some new faces. How they will go about it, however, remains to be seen.

QUESTION: I was interested in your comment on the possible trends that might take place as the result of our decrease in expenditures in foreign areas, which is inflationary, isn't it?

DR. PIQUET: Yes. I suppose that should be followed by other activities in the same direction, such as more pay-as-you-go taxation, and the ability to pay for certain things, maybe a loosening of foreign trade, so that you could have a live-and-let-live policy. Your question is not an easy one to answer.

QUESTION: I don't think it is in the immediate offing--but isn't there a possibility that forces will be set in motion to obviate these things that you speak of?

DR. PIQUET: Yes. Certainly there is this tremendous force of productivity being thrown on the market. You see now by our total budget that a very substantial part of our gross national product is being drained off for building up the military machine. It is not so much as anticipated, but defense expenditures are bound to go up for at least another year or two and then taper off. When they taper off, what happens to this terrific capacity? It is going to be thrown on the market. Where is the purchasing power coming from to buy those products? We might have the same situation that we had in 1929. How can you do business without a buyer? That is the argument by the people who are predicting that there is going to be a depression.

I think your comments are very well taken. That is the problem we face. That is where this stand-by idea comes in, because we are tooling up now for a tremendous effort, which is sort of a "getting-over-the-hump" effort. Then after this is over, if we divert this productive capacity into civilian channels, we will have to expand our purchasing power far beyond what I indicated. We have increased our capacity, not by savings, but by the power of the Government to drain off money from the military establishment. So maybe it should be kept out of the regular civilian channels. That is in back of my idea of stand-by. It is tremendously difficult to work out that idea even on paper.

QUESTION: You have covered the unfavorable trade conditions, United States versus European nations. Could you discuss the possibility of

RESTRICTED

the solution of some of those difficulties by removal of the trade barriers within Europe and also the removal of national prejudices and favoritism?

DR. PIQUET: Europe is a continent somewhat larger than the United States, separated into a number of individual sovereign countries. We have already, I think, to a degree that is dangerous, told them they should tear down those barriers, because all they have to do is to point to us and say, "Why don't you tear your own down?" Why should they among themselves allow their industries to face the competition of other countries of Europe when we won't allow their products to be introduced here when we are much more productive?

I think it would be a very fine thing if they would do that. But do you realize that Belgium, the Netherlands, and Luxemburg, the so-called "Benelux" countries, in their customs union which they established three years ago, are having one awful time, those little countries, trying to iron out their economic differences to such an extent that they can have a common customs and tariffs system, because their industries don't gear into each other. They are not supplemental; they are competitive. Now, if Belgium, the Netherlands, and Luxemburg--those little countries can't do it, how can we expect the large countries of Europe, including such great powers as Great Britain, France, and Germany, to do it? It is fine on paper, but we are dealing with people.

QUESTION: I wonder if their industries and resources are such that if trade barriers were removed, their resources would be sufficient to enable them to support themselves?

DR. PIQUET: That would certainly improve their condition. As Adam Smith said years ago in "Wealth of Nations," as soon as you raise labor productivity, you have to expand the market. If England could sell its motorcycles, bicycles, cutlery, leather, and pottery on the Continent, its position would be much better than it is now.

Of course, that is elementary arithmetic, because it would have a wide market. You see, as it is now, it doesn't have it. The bicycle industry in England now is becoming a rapidly growing industry and the English have tremendous pressures exerted to keep their bicycles out of other countries. British bicycles are popular in this country today. If the British bicycle people thought they could develop the American market and hold it, without our tariffs being raised or quotas imposed, they could sell a large number of bicycles in this country. But they are not going to spend millions of pounds sterling to advertise in this market and to expand production, if, as a result of their economic success, we will try to keep them out.

It goes right back to the fundamental fear of imports. Everybody has it, more or less. Imports are often a convenient scapegoat.

QUESTION: I gather from your interesting talk this morning that there are many minority groups or lobbies in Washington. It seems to me that there is one majority that is almost helplessly lost, and that is the consumer. Now, if there is some way of getting the American consumer's point of view represented in Congress and considered, wouldn't that iron out a lot of these difficulties? I know there is a Consumers Union, but it has never amounted to anything. What do you think about the possibility of such a movement?

DR. PIQUET: When I examine my own psychology, and assume that other people are not vastly different from me, I realize how idealistic such a solution is. I know that during the Roosevelt Administration when I would pick up the newspapers and read about another round of wage increases, I would say: "Look at what they are doing now. They are controlling prices and letting wages go up. You can't do that while operating at peak capacity!" That is elementary. Then next morning or in the next few weeks I would pick up the paper and see where a bill had been introduced in Congress to raise the salaries of Federal workers. But, did I turn the increase down? Not at all.

I knew as well as I know my own name that I would be better off if those wages and salaries had not been increased. But if I sent mine back and told Uncle Sam I didn't want the increased wage, I would be cutting my own throat. We all have to work together; there is the "fly" in the ointment.

How do you get the consumer's interest? We are all consumers, every one of us. We all have to choose between a smaller pay envelope and prices being a little higher. We will take the higher prices, because our producer interests are concentrated in one line, while our consumer interests are diffused over so many lines that in the mind of each of us the producer interest is overpowering.

The consumer's interest is spread too thin. This consumer organization, the Consumers Union, I think, has done a grand job so far as it has gone. So have the Consumers Research Reports. But this is just a drop in the bucket, just a little bit.

I don't think that is the answer. I intimated earlier, in speaking of tuna fish, that by lining up one producer group against another we might bring about the consumer's national interest. In the old days of NRA the consumer's best hope was in the labor group. Those were the days before labor was successful in getting the upper hand. But what we have

RESTRICTED

210

seen in the last few years is that labor is no better than capital when it succeeds in acquiring monopoly power. Maybe a consumer's monopoly would be bad too but I will take my chances on it.

QUESTION: All your discussion of inflation has been of the relationship of cost to price. Do you feel that our pattern of a central currency is a necessary evil? Do you feel that the devaluation of gold and the restrictions on its international circulation, and the prohibition against the ownership of it, are a reversible process within a given Administration?

DR. PIQUET: You have raised a question that I could talk about for another hour but I will try to give a brief answer.

Gold is always convenient as a scapegoat, like imports. It makes little difference what the international exchange be, whether it be gold or paper. The money is not the important thing. The inflation comes by virtue of the jag we are getting through deficit financing. If you change the weight of gold in the dollar (if we were on the gold standard), the weight of gold would have very little to do with it except for the profitability of gold mining. I remember some Senators from Nevada and other western states wanted to raise the price of gold. Why? Was it because they had the economy as a whole at heart? The more basic reason was that they wanted the gold mines to be more profitable. Gold is among the least important things in the economy. The important thing is the number of dollars relative to the number of goods. There is no longer any connection between gold and dollars.

If we could go back to the nineteenth century system of a free gold standard in a multilateral trade world, it would be fine. As I have already pointed out, the reason it worked in England was because, as Adam Smith showed, the mathematics of it was rational and logical. But, it also was to the interest of the Bank of England to make it work. It was especially because the Bank of England made British currency the international currency. The English did that by making their notes convertible into gold. It resulted in what appeared to be an automatic system, though in retrospect it appears not to have been so very automatic at all.

COLONEL BARNES: Dr. Piquet, I think the class now realizes what General Greeley meant when he said that we plead with you each year to come down here. For my money this is the best yet. I am going to let the applause indicate what the class thinks about it.

(23 Jan 1953--250)S/rrb.

RESTRICTED