AN INTRODUCTION TO THE REVIEW OF BASIC ECONOMICS

26 August 1958

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Publication No. L59-4

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

AN INTRODUCTION TO THE REVIEW OF BASIC ECONOMICS

26 August 1958

DR. KRESS: General Mundy, Admiral Clark, and Gentlemen: This morning we shall concern ourselves with a discussion of basic economics and the economics review course under the several headings that you see noted on that easel board, namely:

(1) What economics is.

(2) The reasons why we study economic theory here in the Industrial College.

(3) How the course is presented.

(4) What is its future value to you?

What Economics Is

Economics is simply the study of man's material wants--his material wants--not his social wants, not his emotional wants, not his psychological wants--just his material ones.

Economics is one of the social sciences, and as such suffers when compared to the natural sciences as to definition. Economics has no laboratory in which to conduct its research--unless you regard the wide world as its workshop. It has no experimental population--unless you regard the whole human race as such. Both are unwieldy workshops. Economics lacks exactness as to its forecasting possibilities in a particular situation, since human beings have the capacity to say "no" when all the data indicate a positive answer.

But if we use the dictionary, we find that a science, any science, consists of demonstrated truths, or observed facts, bound together in a system of general laws, and which system includes the means for the discovery of new truths. By this definition, then, economics is a science. Certainly a growing number of highly educated persons are spending their lifetimes pursuing its ends; and each of us here this morning has a whole series of currently personal economic problems.

It is interesting that economics was called "political economy" generally, even after the turn of this century. Today there is again

an increasing tendency to consider economic facts in relation to the national state. You may debate the details of this concept with your economics instructors during the afternoon discussion periods.

Schools of Economic Thought

There is no doubt but that modern economics begins with Adam Smith's "Wealth of Nations," published in 1776. Smith was the first man to give us a thoroughly integrated system of economics geared to an evolving industrial society.

Writing on economics, of course, goes back many centuries before the Christian era. Many like to refer to Plato, Aristotle, and Xenophon as formal writers on economic topics. They made important fragmentary contributions both to political and to economic theory. I like to go back even further. The Code of Hammurabi, composed roughly about 2000 B. C., set standard wages for skilled workers and fixed cattle prices for the people of Babylon. Advancing 1500 years, to 551 B. C., we find Confucius arguing for government fixing of prices, state aid and relief for the aged, equality and universality of taxation, and the abolition of tariffs.

The economists of the Middle Ages were basically philosophers--for that matter, what economist today is not--and they were concerned with ideal man and idealistic treatment for all mankind. But it is to Adam Smith that critics of our modern economy still turn to find a "whipping boy." He and his followers, often called classicists, are accused in the name of freedom, of laissez-faire, of turning the modern greedy entrepreneur, seeking only to maximize his profits, loose on mankind, and as having clothed him with a certain degree of respectability. No amount of explanation that Adam Smith simply saw that the state had interfered too much with men's lives and left them stagnated, or that he was a professor of moral philosophy in Edinburgh and remained in good standing with his colleagues for a lifetime, will placate those who today castigate Smith and try to return to the very state control that he helped throw over.

I will not weary you this morning with a rehearsal of the various schools of economics that have followed Smith. Their names are legion. But I do want to make a point that I think important.

The socialist school of Karl Marx was preceded by a formidable group known as the Pre-Marxian Socialists and included several

aristocratic and rich men, such as the Count Henri de Saint-Simon; Robert Owen, an English textile tycoon; Pierre Joseph Proudhon; and the German Jewish aristocrat Ferdinand Lasalle. Karl Marx, then, 1818-1883, was not the first writer on the economics of socialism; and he is certainly not the last.

Marx wanted to help the common man by increasing his level of living. Some of today's socialists want to increase the common man's taxes in order that the omnipotent state can help him spend his money in better ways than he would spend it himself.

In the various main schools of economics that are identified under such names as the classicists, the postclassicists, the revisionists, the historical group, and the socialists, we find distinguished American economists belonging to each. But no particular American school of economic thinking has arisen. We have perhaps contributed as much to the statistical school, of more recent years, as to any other single group.

As I have said, America has produced many great economists, both writers and teachers, but perhaps America's genius lies in the practical application of economic ideas to everyday living. At any rate, we have produced no alternate American "economic systems" as such. I want to refer to two Americans this morning, and only to two--one still living, and who almost was scheduled to occupy this platform during the current course.

Among the "institutionalists" we find the name of the American, Thorstein Veblen, carefully enshrined. The American Economic Association devoted a whole program to him just last year, in Philadelphia, at the time of the annual meetings. But economists and philosophers alike characterize Veblen as a critic of modern America, but without himself offering a complete economic system as an alternative to that which he criticized. He is probably best known for his book "The Theory of the Leisure Class," published in 1899.

The second man that I wish to refer to this morning is John Kenneth Galbraith, presently teaching at Harvard University. For several years he served Fortune Magazine as an editor, and enjoys the gift of readable writing. A few years ago he formulated his theory of "countervailing power," which set the economic world into two opposing camps--one camp denying his central thesis, and the other believing that the theory explained much of our difficulty today.

Greatly oversimplified, the theory of countervailing power roughly holds that if any one of the factors of production--land, labor, or capital--becomes too powerful, the other two temporarily combine to reduce the overstrength of the third. Or perhaps we should list the three opponents as mass production, mass buying, and government control of both. To me this theory has a great deal of appeal.

This same writer today has a new book, called "The Affluent Society," which was not written for economists, but which is getting very wide comment. It's in its third printing in four months.

Why We Study Economics at the Industrial College.

Turning now to our second topic, your course will be the sixth time that a review of basic economics has been given at the Industrial College. While many changes have been made in the details of the course and in its administration, the old French proverb holds here also: "The more things change, the more they are the same." We have labeled the course as a refresher course, a review course, and a course in basic economics. But, unless your class becomes the exception that proves the rule, all classes find the review worthwhile.

Our overall objective, then, is to recall to your mind basic economic theory that everyday operative conditions have long since relegated to its remote recesses. More particularly, we want you to relate this theory to your own actual experience. Even more, we want you to apply this theory throughout the balance of your course. Surely eight mornings and ten afternoons are not too long for such a review.

No part of your course will be very far removed from economic theory, but several parts will reflect theory in a special way. For example, the Production Section of the Materials Management Unit, illustrates applied economic cost theory, and the Procurement Section illustrates price theory in action. But you return more precisely to basic economics as applied to daily living in the Economic Stabilization Course, in February and March; and to world economics in the course which follows it--Economic Capability for Conflict--in March and April.

My five-year-old granddaughter, when she does not understand what is being said to her, often says, "Give me a 'for instance'." So let me give you one or two examples as to the application of this basic review course in economics to the balance of your year's work.

If we were to follow academic practice, we would perhaps label the review of basic economics as Economics I and II. This would be followed by Economics III--Studies Dealing with Monetary and Fiscal Practices. At the Industrial College we call this unit Economic Stabilization. It too deals with money and fiscal matters, not as theory, but as controls, applied in daily practice--daily practice in time of peace, in time of cold war, and in time of real war.

Chart 1, page 6.--Here at the Industrial College of the Armed Forces we add during this course the study of additional controls--direct controls--which up to now have been used in time of actual war--World War I, World War II, and Korea.

Now, before you conclude that there will be no more general wars and therefore no need to understand direct controls, let me remind you that the President of the United States at a recent press conference pointed out that direct price and wage controls may again become necessary if the creeping inflation that we are currently experiencing continues to persist. (You may have noticed in the morning paper that three Federal Reserve banks have increased their rediscount rates from one and three-fourths to 2 percent, this means that money is being tightened up once more because the inflation has not stopped.) Also it is generally agreed that a full set of the strictest kinds of direct controls--would become necessary as rehabilitation measures following atomic attack.

Of course, daily monetary controls--the indirect ones--as used by the Federal Reserve Board have never been so important as in the last few months. I gave you an example a moment ago. These are efforts on the part of the Board to control the business cycle. They are recorded by appropriate fiscal policy on the part of the Treasury.

You may wonder why we do not give Economics III immediately following Economics I and II, instead of letting four months intervene. Some advocate such a procedure. Others have counseled an intervening period during which to allow the basic material to be thought through, to be reconsidered, to ripen in the mind. I belong to the latter group. I am certain that intus-susception is as orderly a mental process as it is a biological one.

CHART 1

MAJOR ELEMENTS OF A DIRECT STABILIZATION PROGRAM

1. LIMITS PRICE AND WAGE INCREASES
2. REASONABLE ABSORPTION OF COST INCREASES
3. RESTRICTS AUTOMATIC RISES IN WAGES AND PRICES
4. DIFFERENTIAL PRICING
5. SUBSIDIES
6. PREVENTS SHIFT FROM LOW TO HIGH PROFIT ITEMS
7. RATIONS CONSUMER GOODS

So in your basic economics review learn as much as you can about money and its functions, about banks, and the principles upon which the Federal Reserve System operates--all this in order that you will get the fullest understanding from the money and fiscal lectures and seminars during the Economic practices, but at the policy level--nevertheless, on policies and practices based on economic basic theory and basic legislation.

When you study gross national product as outlined in your reading text, and have listened to Dr. Gerhard Colm outline a program for a proposed expansion of our national produce accounting system as a means of better understanding what the economy is doing, you will be laying the groundwork for research which you must do in the Economic Capability for Conflict Unit. There you must determine, study, and interpret national income accounts and gross national product accounts for many nations, friend and foe alike.

How the Basic Economics Course is Presented--Its Content

Beginning on page 9 of the Orientation Curriculum Book, you will find a series of seven basic economics lectures, with their scopes and the names of the speakers. One of the changes that we made several years ago was in the scope of the morning lectures. We now ask the speaker to stress current problems and practices, leaving the underlying theory to the textbooks and to the afternoon discussion groups. This, in turn, means that your understanding of the lecture will be enhanced by careful prereading of the daily assignment.

The lecturer on Money and Monetary Problems, Dr. Gardiner C. Means, scheduled for Thursday, for example, is coauthor, with Adolf Berle, of the book "Modern Corporations and Private Property." Written in 1932, this book was one of the first to challege our earlier corporation concepts. Similarly for the lectures on Banking, Economic Indicators, National Accounting, International Economic Institutions, Foreign Trade, and Taxation, each speaker is particularly chosen for expertness in the field of his lecture.

You have a weekly schedule for the current week. Whenever it is different from the curriculum book, be guided by the weekly schedule, since it is later in time. You will note, too, that the biographical data for each speaker are included. Make a practice of reading these biographies, so that you can judge the speaker's remarks in the light of his background.

Following the morning lecture, you will have an opportunity to discuss the material presented with the lecturer himself during a 30-minute question period. At 1:30 in the afternoon you will meet in eight discussion groups. Each discussion group will be led by an economics instructor, largely borrowed from the local universities. You will have had time since the lecture to digest the morning talk and to note points that are still not clear or seem controversial. Propound these to the economics instructor, as well as other questions based on the reading assignment for the day.

Remember that these are discussion periods. The economics instructor will not lecture to you. If you do not question him, he will turn the tables and question you. So defend yourselves by having many questions ready.

The economics instructor will be assisted by a moderator, a member of our permanent resident faculty. You were introduced to these moderators a few minutes ago. Most of the discussion leaders find that they can only get here in the afternoon. So you will not get acquainted with most of them until 1:30 this afternoon. We have two exceptions from our military services. We have Colonel John Lackas, of the Army, a permanent faculty member, who has done this work for three years and Lieutenant Colonel William McDonald, of the Air Force, stationed at Headquarters, who is beginning this year.

Now there are always the 10 percent who do not get the word. You have two publications which contain the required daily reading. They are Pamphlet, R-201, "Basic Economic (Refresher Notes)," and what we call the Brookings Text--"An Introduction to Economic Reasoning."

In addition, each of you has been furnished a copy of James' "Principles of Economics." This is a review type of book for examination preparation. It contains much material that is not in the required reading. So the two books that I have exhibited are required reading. The James book is strongly recommended when you are somewhat doubtful about a point being raised. In the James' book index you can usually find that point and thus can check it.

In your study rooms are additional reading materials for those who need more extended reading, for those who want to do an especially good job. For those of you who are engineers or who are engineering-minded, read Samuelson and do not read any other additional author. Those of you who are not engineering-minded, read anything but Samuelson.

What a Knowledge of Economics Will Mean to You in the Future

Not only will an understanding of the principles of economics be of service to you throughout this course; it will undoubtedly prove to be of much longer and lasting value--I will venture to say, a lifetime value.

One of the things that we study in basic economics is the theory of wages. All of us are much interested in our rate of pay and its continuous adjustment. Wage practices have been somewhat upset of late years by the actions of labor unions. But in the long run--let me say parenthetically that "the long run" is a term very dear to economists, especially when cornered; they will ask you, "Are you speaking of the long run or the short run?" and they're speaking of the opposite one to what you are--however, in the long run, wages must be paid to those who earn them; and no one wishes to be shortchanged.

So, if all production is in balance, and if the wage rates are correctly adjusted, all wages will be just sufficient to pay for all goods produced. But workers who make tanks and military airplanes, military ordnance, and military guidance systems get wages; but their product is not exchanged for other products. Their production goes into a pool for military storage or even destruction. They, therefore, must bid against other workers whose products are exchanged for a share of the consumer goods.

To the extent that taxes, paid by everyone, balance the wages of the military production workers, there is no difficulty. And as long as the Government borrows any additional money needed from those who wish to save, through the medium of buying Government bonds, there is no inflation. But the moment the Government borrows from the commercial banks by exchanging bonds for loans, that moment the monetary printing presses have started to run. The "quantity theory of money" is in operation--"The value of money varies inversely with its quantity."

When money is increased in quantity without a corresponding increase in the production of goods and services, the course of the general price level can only be upward. This is what our enemies mean when they say they will force us to spend ourselves into bankruptcy. The long cold war, since 1947, has been very costly but prosperity has made it possible to meet these defense costs without deficit financing.

Further Inflation

But there is another feature of our economy that many feel is inflationary in character. It is the Employment Act of 1946. This act's stated purposes are to foster free competitive enterprise; promote the general welfare, so as to afford useful employment opportunities; and to promote maximum employment, maximum production, and maximum purchasing power.

This act when originally proposed was known as the Full Employment Act, and certain preliminary drafts are said to have contained features which would have required the Government to provide a job for anyone who asked for it. Such provisions would have automatically built inflation into the economy. These provisions were eliminated. But under the act, as it is written, economists are divided as to whether the promotion of maximum employment, maximum production, and maximum purchasing power can be carried out without a slow, creeping inflation of prices and consequently a lowering of the value of the dollar.

Until recently, nothing had to be done to carry out the provisions of the Employment Act. Prosperity was rampant. What of the future? One Administration could be more assiduous in administering this act than another. At any rate, you will have many a future occasion to ponder the value of the dollars that come into your possession.

Prospects for Deflation

Another of our review topics is "business cycle theory." Price levels can go down as well as up. We are in a recession now, and have been for 18 months. We had a recession in 1949-1950, but spending by the Government for Korean defense on a crash basis helped to turn the economy toward expansion once more.

I have here an excellent study by the National Planning Association called "The Economy of the American People: Progress, Problems, Prospects." I recommend it to you most heartily and for many reasons. But on page 140 we read:

"A disquieting question may be lurking in the mind of the reader who has followed us to this point. He may be convinced that the American economic system functions well today. Why, then, did it not produce the same result during the depression of the 1930's? At that time, certain economists were busy explaining why, under the

conditions of American society, economic stagnation had to be expected. In contrast, they recently have been explaining why continued prosperity is an almost innate characteristic of the American economy. What assurance is there that, overnight, America may not be back in a period of stagnation?"

Well, the answer, in this little booklet, and the one to which I subscribe, is that our series of built-in stabilizers should prevent too severe a decline. But before I speak about those stabilizers, let me do something else.

Chart 2, page 12.--Here we see a commodity price index covering our major wars. It is taken from the New York Times and ends about the year 1955. It shows that prices go up tremendously during every war; and that from five to ten years after each war, excepting World War II, they come down again, often to the base from which they started to go up.

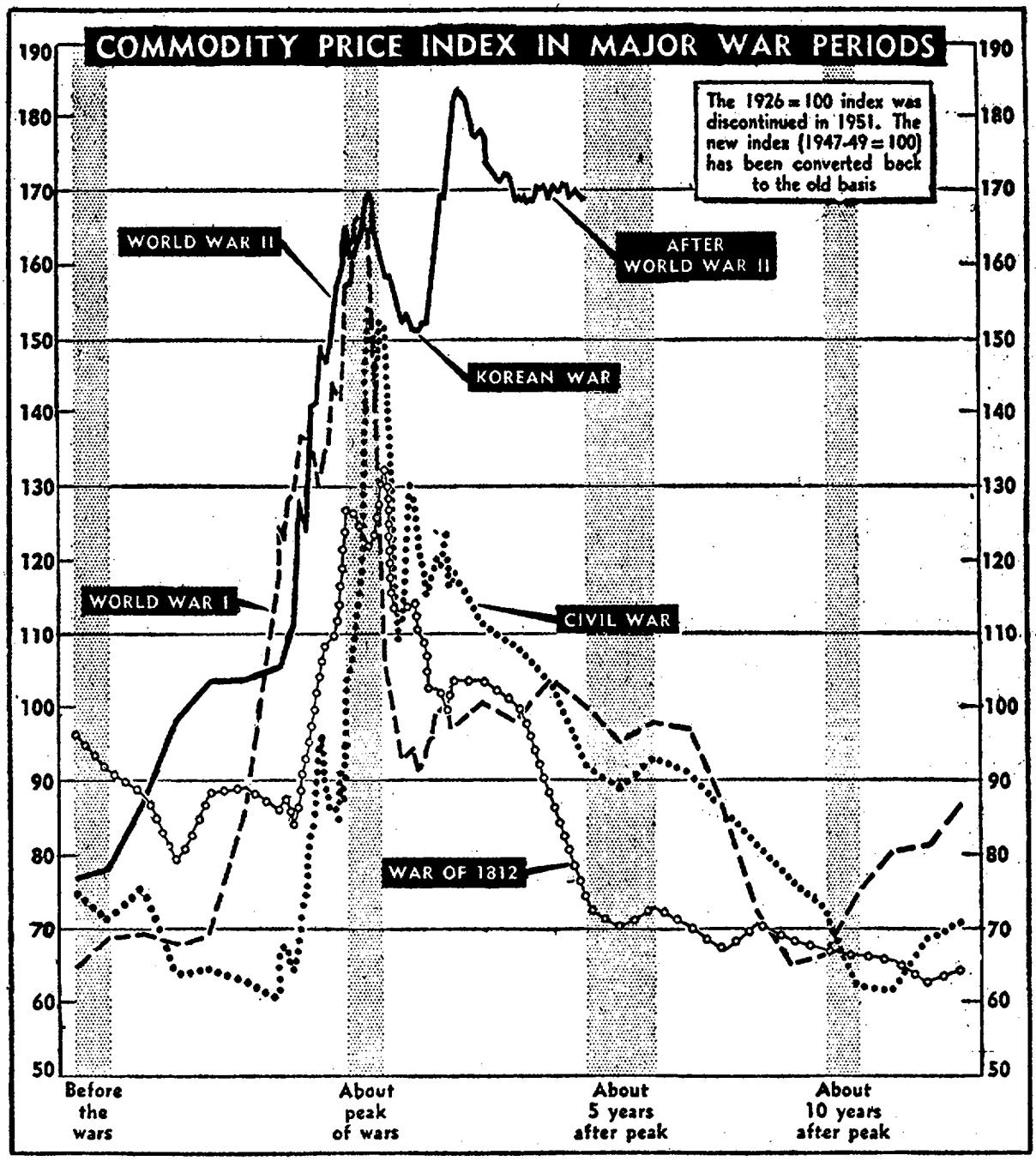
Each one of these lines represents one of our major wars. They all started from somewhere near this base. You also see that from five to ten years after each war they come back almost to the starting base. The exception is World War II. You notice that prices were coming down nicely, when the Korean War broke out. They then rose to a point higher than ever and have still not come down. In fact, they have gone up.

At the peak of World War II the index reached about 170. At the time of the Korean outbreak it had dropped to 151, whereupon it went up higher than ever-- to 186 or 187--and had dropped back to 170 by 1955. And, as I say, it since has gone up again.

Now, this chart or graph is an excellent index of prices in wartime, and I have caused a copy of it to be placed in each of your mail boxes during the last hour. You may wish to preserve it for future reference.

Does this chart prophesy considerable deflation to come? My old mother always told me that no one is so blind as he who won't see. However, we have built a whole series of economic stabilizers into our economy, and we feel rather certain that nothing of the 1929-1939 type of depression need occur again. However, recession is something else. We have been in a recession for 18 months, and are apparently coming out of it and without much reduction in prices. Much will depend on the reception accorded by the public to the 1959 automobiles.

CHART 2


COMMODITY PRICE INDEX IN MAJOR WAR PERIODS
The 1926 = 100 index was discontinued in 1951. The new index (1947-49 = 100) has been converted back to the old basis
WORLD WAR II
AFTER WORLD WAR II
KOREAN WAR
WORLD WAR I
CIVIL WAR
WAR OF 1812
190
180
170
160
150
140
130
120
110
100
90
80
70
60
50
Before the wars
About peak of wars
About 5 years after peak
About 10 years after peak

But let us list the economic stabilizers that are built into the economy. I may not have all of them here. They include unemployment payments, social security benefits to the old and the infirm, additional pension payments by industry, Government guarantee of bank deposits and of deposits in building and loan associations, subsidies to farmers, guaranteed mortgages on home loans, and the willingness of the Government to initiate make-work programs to provide public employment as private employment drops off.

Time Magazine for 18 August 1958 rehearses some of the suggestions that were made to overcome the current recession. They included a tax cut ranging anywhere from $3 billion to $10 billion, massive Government intervention by tax cuts and public works, repeal to the 10 percent automobile excise tax, and increased Government spending.

The article goes on to quote the Chairman of the President's Council of Economic Advisers, set up under the Employment Act of 1946, Raymond Saulnier, as pleased that the economy can right itself without massive Government spending or tax cuts.

Let us see just what was done to right the economy, according to the article quoted: Military procurement spending rose from an annual rate of $8.5 billion in the third quarter of 1957 to a rate of more than $20 billion in the second quarter of 1958. Equally important, contract letting was speeded up. Housing construction was stimulated through congressional appropriation of an extra $1.9 billion to the Government lending agency. Most important was the provision of an average of 13 weeks extra unemployment benefits for those who had exhausted their regular benefits. More money was put into highway construction; the transportation tax on freight was eliminated; and you, the military, and we, the civil service, got a nice pay increase.

These helps, together with less tax receipts due to poorer business, caused a $2.8 billion deficit in the United States budget for the fiscal year just closed, and the prospect of a $12 billion budget deficit for next year. The Treasury will have to borrow this money, undoubtedly from investors without having to resort to commercial bank loans, but the total interest payments on the debt will certainly be increased by the amount of the interest on the deficit financing.

As we have said, these actions are stabilizers. And they seem to work. But an economy that is to grow must have some additional stimulus than mere stabilization. The stimulus can come from

increased population; from new inventions; from changes in taste, such as the "sack" in women's dresses; or from increased spending for defense and, of course, spending for war.

One final item and we'll take a break. The Industrial College finds itself concerned daily, more and more, with international economic affairs. It is part of the growing "Pax Americana," long predicted, and now here. Every day that passes, the United States finds itself with more and new foreign economic problems. You have heard the President propose an economic commission for the Near East. You have read of the proposals of the State Department for a lending agency for Latin America. You will have a lecture tomorrow on the theory of foreign trade, and another on next Tuesday on international economic institutions. Because of the limit of time, neither international speaker will be able to spend time on the newer European communities. Europe is making great strides in helping herself, with our assistance in many cases.

Chart 3, page 15.--On this chart you see an outline of the three European communities. They are the Coal and Steel Community, in force in 1952; the European Economic Community (Common Market), in force only since 1 January 1958; and the European Atomic Energy Community (Euratom), also in force 1 January 1958.

It should be noted that these three communities have the same membership--Benelux, France, Germany, and Italy. The criss-cross lines indicate the manner in which the Assembly, the Council of Ministers, and the Court of Justice serve all three European Communities.

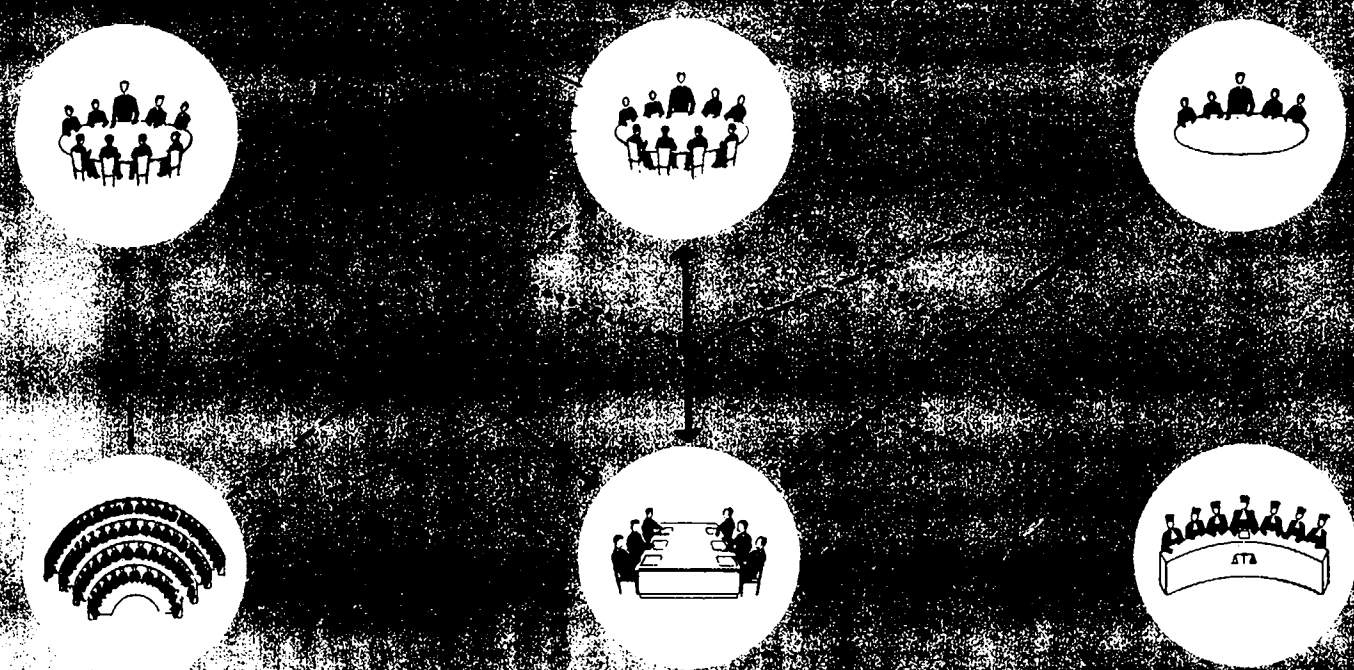
On the first of next January the Economic Community, composed of these six countries, will lower common tariff barriers by 10 percent; and it proposes to eliminate them entirely over the next 12 years. What will this do to the trade of the United Kingdom itself? Will she be forced to join up? What will this change in tariffs and trade barriers do in forcing rearrangements of the foreign trade of the United States? These are very interesting and most important questions. This will give you food for future thought in the field of economics. You will find a copy of this chart in your mail boxes. On the reverse side there is much important statistical material.

Thank you very much.

COLONEL SILLS: Dr. Kress is now ready for your questions.

CHART 3

THE INSTITUTIONS OF THE EUROPEAN COMMUNITIES



QUESTION: Dr. Kress, you told us of some ways and means to prevent depression. What procedures and techniques have been used to prevent inflation of prices?

DR. KRESS: The Federal Reserve Board, as you remember, a few months ago went into a tight-money policy. Some have said this very action brought on a slow-down. The Federal Reserve Board itself is aware of this criticism and has said: "We do not think that we brought on a recession. We had no choice but to break the inflation and take the consequences." As I said a moment ago, three of the twelve Federal Reserve banks have increased the rediscount rate in the last two weeks from one and three-fourths to 2 percent. This is a step toward fighting inflation. To answer you more specifically, we have had very little experience, except through the monetary policies, with fighting inflation.

STUDENT: May I ask one more? My question was in regard to the control of prices as affecting wage earners. Are there any other methods or procedures in the research stage, such as labor-regulated prices, administered prices by industry, or controlled prices? As we have seen during this recent recession, prices don't tend to go down simply because a lot of people are unemployed. Are these techniques under development? Will the Government take more rigid control, as you suggested it might?

DR. KRESS: The Committee for Economic Defense, which was formed in 1940 or 1941, before World War II got started, is a committee of businessmen. It has made a whole series of studies on the current problems and they are excellent ones.

It was proposed at the beginning of the session of Congress just closed that the Government initiate a monetary study on a worldwide basis, because we haven't had one since the one of 1907 to 1912, out of which we got the Federal Reserve System. But a great deal has happened since 1912 in this world and a great deal has happened in the American position. I do think we need such a monetary study very badly. The Congress couldn't agree on who should be on the commission; so they let it alone. The CED announced the receipt of some extra money for this thing and has initiated a new monetary study. I think something worth while will come of it. It undoubtedly will touch on that wage question.

QUESTION: Dr. Kress, What is the reasoning by industry and business in maintaining the present level of prices?

DR. KRESS: The law of supply and demand is operating here without a question of doubt. The only trouble is, there have been big inventories on hand and the people who own those inventories paid for them at certain prices. They can't afford to reduce the prices on them very much without taking a loss, and they're not in sufficient difficulty yet to have to take that loss.

Now, over time they will take such a loss. Wages will get reduced if the recession continues, which I don't think it will, and prices will adjust. There just hasn't been sufficient time for a readjustment of the price level. But there's no way to prevent it in a real down-turn.

Now, on the other hand, psychologically, businessmen try to maintain the price level, because if they can avoid having to reduce it, they don't have the great problem of bringing it back up again to what they might consider a satisfactory level.

The way we economists say it is that prices are "sticky". But they are not firm, in the long run. They will move. They will change. It takes a little more time than we have had.

QUESTION: Do you think we can ever look forward to a reduction in the price index for commodities?

DR. KRESS: When you say "commodities," what do you mean? That's a technical word. Actually, world commodities are down in price very much now. In fact, they're disgracefully low as far as the producers of those things are concerned.

QUESTION: You briefly touched upon excise taxes with respect to automobiles. I believe the automobile industry probably used the recession as a means to try to push the repeal of the excise tax on automobiles. I don't know what the dollar volume would be; but when it's broken down on a per capita basis, it probably doesn't amount to an awful lot per head. Do you feel that something of that nature would really be a stimulant toward boosting sales of automobiles?

DR. KRESS: What I had in mind--and that's specific too--was that the excise tax is 10 percent on the basic price of an automobile, which means that it's roughly $200 on any car that you buy. The recession began with the automobile industry. That's where it still is. Many say we had an opportunity, at not much cost, of finding out whether a reduction of $200 in the price of an average car would stimulate buying. We didn't take that opportunity.

QUESTION: I heard an economist make an observation that there is too much to-do about the national debt; that the economy could probably support a national debt three or four times as high as it is now. Is there a professional consensus among economists as to the limits of the national debt?

DR. KRESS: Yes. As far as the economists are concerned, with perhaps the New England mind excepted, as long as that debt rises out of the ordinary processing of things, its not going to get out of hand.

Now, what is usually said is that the national debt must be reduced. But, who wants it paid? Suppose the debt were to be paid off tomorrow morning. You own some part of it. You've got some Government bonds around. You'd have to turn them in in exchange for money, wouldn't you? What would you do with the money?

Well, I suppose you'd go to the stock market; as would many others. The law of supply and demand would operate there too. Prices would go up so fast that it would make your head swim. So that what stocks you got wouldn't be worth as much at a later time, after things settled down.

You are now perfectly content to keep those bonds in your lock box. You're perfectly content to will them to your children. Where would you invest the money that you now have invested in the debt? Everybody's debt is somebody else's investment. This is not to encourage the formation of debt. The present national debt arose out of conditions beyond control.

QUESTION: I believe that China, which had some inflation during and after the war, has more recently had a fairly stable price level. At the same time they have had full employment and an expanding economy. Is it not possible that we in our American society can also have full employment and an expanding economy, an expanding productive capacity without inflation? Must we have inflation where they have price stability?

DR. KRESS: There again we've got several things to consider.

Nationalist China showed little ability to control the price level. The Communists came in and they cured that trouble right quick. But it was a drastic kind of solution they applied. I don't think we can apply that kind of solution in this country unless we change our form of government considerably.

QUESTION: I find it difficult to rationalize the fact that we have been in a recession and are still not completely out of it and at the same time we have had creeping inflation. It has not disappeared. To my mind in the long run these two phenomena appear to be mutually incompatible. Would you care to comment on that?

DR. KRESS: They are modern phenomena that have not been experienced before. That's what makes them so difficult to even talk about, let alone do anything about. This is a new experience. We've never been through this thing before.

We're just feeling our way. The Federal Reserve banks are pushing the rediscount rates up. They can push them up a long way before we get tight money. But the process is starting in that direction once more.

QUESTION: Back about six months ago I read an advertisement by one of the railroad companies--I believe it was the Chesapeake and Ohio--which said that the cause of the present depression is the fact that each of us is spending 47 cents less a day than we did at the previous peak in the economy. That made no sense whatsoever to me. Could there have been any truth in that?

DR. KRESS: Yes. Savings have gone up at an annual rate of about $5 billion or more. People are just putting their money in the bank and leaving it there.

QUESTION: There's been a great change in the last 20 years from the cash-and-carry basis for consumers to credit. I notice that in a lot of the stores around here they want to sell on a budget account. Would you comment as to what possible effect that may have had on this recession? Is it that we have reached the saturation point on credit for consumers?

DR. KRESS: Let me reverse that a bit. I have long been a proponent of permitting consumer buying on the installment plan. I think that's the only way we ever got the standard of living up for the average person in the United States. Actually, installment credit has fallen off a little during these last 18 months, because people have not chosen to go into new debt.

QUESTION: It seems to me that in the past there's been a greater making of the economic and political decisions in one body. To what extent do you think economic decisions are made contrary to pure

economic beliefs for political reasons? In other words, how far do you think an economist may be forced into doing things that he doesn't believe are good for the economy because the political power voted that way?

DR. KRESS: Without going into a long discussion of political theory, on which I have no claims to being an expert, which I would rather not do, and which the clock won't allow, I think that basically what you're saying is that, in this country at least, we are more and more living in urban situations. None of us can go back to the farm very easily. We have taken a lot of people off the farm. Even those who are living on the land are often working in a factory somewhere. People have to eat three times a day, and those factory whistles, one way or another, have got to be kept blowing. You just can't tighten your belt and go back to the land.

QUESTION: This question goes back to installment credit buying and an interesting situation that I have noticed but haven't any answer for. At the same time that our whole system and economy of buying, particularly for individuals wants in terms of what we need has gone more and more into installment buying in the one area of food, it has gone in directly the opposite direction. In the old days there was the store and credit. Now it's the supermarket and everything for cash. Does the economist have an answer for that? Does it make a real difference in the status of our economy?

DR. KRESS: I've conjured about that a good deal. My doctoral dissertation was on the cooperative movement. As you may know, Secretary Benson told the farmers today that they should expand their cooperatives. But the city cooperative, the store cooperative, which supposedly was the basis for the whole cooperative system, is practically out of existence. There are four stores in town here now, and they're kept up only by idealists. They're dedicated men. Well, that's fine, because they're there watching. The moment the chains get arbitrary and start putting prices up, they're there to bring them back down again.

So the answer, as far as I see it, is that maximum efficiency has already arrived in the grocery store, and there's little more to be done. When the big chains apparently had everything sewed up, the independent chains, the supermarkets, came in and twisted their tails. Efficiency is the watchword. The cheapest way to get your food is to pay cash in a big market like that. You're just about getting it as cheap as you're going to, even though the farmer may not be quite convinced of that.

COLONEL SILLS: Dr. Kress, I think, judging from the nature and the number of the questions here this morning, we can anticipate a very interesting session on economics. Thank you very much.

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