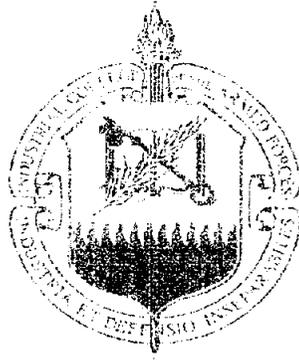


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ECONOMIC STRATEGY FOR THE UNITED STATES

Honorable Richard Bolling

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INDUSTRIAL COLLEGE OF THE ARMED FORCES
WASHINGTON, D. C.

ECONOMIC STRATEGY FOR THE UNITED STATES

15 February 1960

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Reporter: Ralph W. Bennett

Publication No. L60-127

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GEN. MUNDY: Our subject for today is "Economic Strategy for the United States." This is the ninth lecture in our series on economic stabilization, and we move into a new area for discussion.

We have asked our speaker to consider the current level of economic intelligence and the methods of collecting and disseminating it. We have also asked him to discuss the difficulties of the free market system in coping with the new developments in international trade, some of which are controlled centrally by foreign governments.

This is, of course, a very formidable task; but our speaker this morning is eminently qualified to handle it. He's a long-time member of the Joint Economic Committee of Congress; and he is Chairman of the Subcommittee on Economic Statistics. Through his participation in the committee and subcommittee hearings, he has developed a tremendous amount of information and ideas about our subject for today.

It's a pleasure to present to the class the Honorable Richard Bolling, Member of Congress from the 5th District of Missouri.

MR. BOLLING: General, Gentlemen: I am probably going to exceed my mission and not fulfill it. This is not merely because of the snow, but because of the vastness of the subject. First I have to try to give you my perspective; and before I even do that, I want to explain myself a little bit.

I am a self-made political economist. I took a few courses in

college on this subject, but my concern in the field led me to seek assignment to those committees in the Congress which deal on a day-to-day, year-to-year basis with the general economic problem. When I use the word "general," I mean it very carefully and very specifically.

In this Government today we have such a degree of overspecialization in the field of economics that it's extremely difficult to find people who specialize in the general. And, unless you do have people who do this, you find that you have no one who is competent to at least begin to look at the problem and to make some sort of policy decisions. And what we face in this country, and have ^{faced} /, in my judgment, ever since VJ-Day, is the need for a long-range, overall view of our economic problem-- not just domestically, not just stabilization as opposed to growth, or stabilization and growth as opposed to full employment, but an over-view of all of the things, taken together in their proper relationship to each other and to the problems that the country faces policy-wise.

Now, my own view for a number of years has been that our ability to implement a policy to maintain freedom depends on two basic, essential things. One underlies the other. Economics and economic power, very obviously, are going to play an enormous role, I believe, a dominant role, in the competition that is and has been going on between our type of society--an open society with a mixed economy--and I'd better define what I mean by a mixed economy. It's an economy which diffuses power by competitive free enterprise, which is modified in a number of degrees by Government controls--one illustration: is the various commis-

sions that exist to modify the activities of the free enterprise groups under their control. Another modification of free enterprise is the vast network of subsidies that we have in this country--not just to agriculture, but to many businesses and industries. As a matter of fact, I often challenge a business group by saying that there is not a single businessman in the United States who is not subsidized; and when they react in horror, I can always retreat to the postal rates, because all businessmen use the post office facilities and they are heavily subsidized in the postal rates. But this is a modified free enterprise economy, a mixed economy.

Now, we have subsidies of all sorts, and it's important to look at these, because I think they have a very bad effect, many of them, on the efficiency of the economy. We have subsidies that come through direct Government payments. We have subsidies which come from tax favoritism. We have subsidies which come from higher tariffs rather than lower ones. We have a variety of advantages to one industry at the expense perhaps of sometimes the body politic as a whole, and sometimes at the expense of another industry.

So we have a mixed economy. It is no longer accurate to talk of a purely competitive free enterprise economy. It is a mixed economy.

It is, I think, really perhaps the most important development of our political system. Historically it means that we have been able to ~~we can maintain~~ a maximum of free choice and at the same time maintain a viable and effective economy.

Never in our history has this economy of ours been challenged

as it is being challenged today. And underlying the ability of the economy to perform is the ability of the people and its leadership to understand and identify the problems of competition; and, having identified those problems, to devise solutions to them; and then, finally, from the point of view of a policy maker, to make the solutions which are desirable, viable in a political sense.

In parentheses here I'd like to dispose of the common American shibboleth on politics. In a free society, politics is policy-making. In a free society it sometimes takes a very long time to make policy, because there will be perfectly valid disagreements as to what should be done and how it should be done. I am not going to make any attempt to be non-policy-oriented. If I tried to give you all sides of all the questions that I think are important, you would end up with a bowl of mush which would be neither stimulating nor useful to anybody. I consider my role to be to express a point of view, a point of view which is less violently attacked today than it used to be a few years ago, but is still a subject of very substantial controversy.

Now, this is within a frame of reference of the problem of stabilization. I made it quite clear that I don't believe that you can consider in a given speech one problem without reference to the other problem.

What is our basic problem? Our basic problem is that for the first time we are beginning to discover as a people that we face an enemy-- and I don't use the euphemism--an enemy which is skilled and effective in competing on our terms. Six years ago, when as then Chairman of

a subcommittee on foreign economic policy, I first commissioned a study by the Legislative Reference Service of the Library of Congress into the relative economic power and growth of the two blocs--the free world bloc on the one hand--Western Europe, the United States, the developed nations basically--as opposed to the Communist bloc, its allies and satellites. I was attacked on occasion by some people as being in effect disloyal because I thought this was a subject worthy of attention. This question of whether we should study and find out whether the Communists could compete with us effectively was considered out of the range of discussion by some people, because it was considered so fantastic that the Communists could do anything right.

Now, in fields other than economics, we in this country have consistently underestimated the ability of the Communists to do. You all know the things to which I refer. We were wrong in our guess as to when they could achieve ^{the} technology of having an atomic device. We were very wrong as to how quickly they would achieve the so-called hydrogen weapon. We have been wrong in many, many fields. And we have been wrong in the past in their ability to do economically.

Now, I don't want you to get the impression that I think they're nine feet tall. I don't. I think that if we use our ability, we very easily can overwhelm them. But I'd like to give you a few fairly hard facts, which aren't mine. Most of these are drawn from testimony by the Director of the CIA when he made his first public appearance before a Congressional committee last fall in appearing before my Subcommittee on Economic

Statistics on this problem of U. S. -Soviet economic comparison.

Director Dulles said, quite flatly, and with no possible exaggeration--I think his statement was relatively conservative--that in the last eight years the Soviet Union had grown industrially at least twice as fast as we had. He also said that in terms of gross national product they had grown at least twice as fast as we had; that in that period they had very substantially closed the gap between the size of their economy and the size of ours; and that--and here is why I am so sure we could do a good deal better than we are doing--even with that tremendous growth, they still have an economy less than half of ours. They claim that their economy is about 50 percent of ours. My guess is that it's somewhat less than that.

But they use the product of their economy as their leaders determine it shall be used; and those determinations over the years have been that the product of that economy in large measure be used for those things that increase national power. And it is in this area that we in the United States have made different choices. When I say "we" I am talking about the American people. I am not talking about a given individual in the Executive or in the Legislative Branch. I'm talking about the people as a whole. The vast majority of our productive capacity does not go into the things that make for national power. It goes into those things that we as individuals desire.

The Soviet Union has an economy less than half the size of our own, and yet the best estimates that I know are that they are getting at

least as much, and perhaps more, in defense than we are. Everybody knows that they invest a very substantially larger proportion of their economic strength into propaganda, infiltration, subversion--those things that tend to weaken the other side and thus relatively increase their side of the strength picture.

We are not expending in this country for the education of our people overall, from all sources, anything like the same proportion of our gross national product that they are for the training of their people. Now, you notice that I differentiate between our education and their training. It is very unwise, in my judgment, to talk about a Soviet educational system, because this tends to confuse people. In the Soviet Union people are trained by the State for the State. In this country we try to educate people to realize themselves and be good citizens within a democracy. "Education" comes from a Latin word "educe," which means "to lead out"; and there's a very fundamental and entirely proper difference between our approach and their approach. And it is shocking to me that in a free society we spend a smaller proportion of our economic wealth in education than a slave State does in training.

It is very important and obvious to all of you that if they produce more technicians and engineers and a great variety of other people than we do, they are further enhancing their power to compete.

Furthermore, they have the advantage, some say--I don't believe it is an advantage--because of their methods of making decisions, of being able to compete in a sense economically with tremendous political

overtones. Some people say they can do this more effectively than we do. One example, with which I'm sure you are all familiar, is their going into a country which is a one-crop country, like Egypt on cotton, and saying to them: "We'll buy up all your surplus of cotton." This may or may not be an economic venture in the sense of pure economics. From our point of view it may or may not be profitable. But they are able to go in and for political purposes buy up a vast amount, if not the whole, of the surplus of that one-crop country.

They did it in Uruguay with wool. Some of us feel that this is something we should have been thinking about and coming to conclusions about many years ago. Only in recent months have there been any intensive studies made in Government of how we meet this. I'm not suggesting that we're going to do it by trading. My own view is that if we really believe in competition, if our business and industry and labor really believe in competition, and if our people in this country really understand the need for competition, we can compete very effectively in every way, in every field.

It may be that we're going to have to set up something to use occasionally, something that will have a euphemistic substitute for our Board of Economic Warfare. But this will not be the major approach to this type of competition. We should be able--and I believe we can if we manage ourselves correctly--to compete effectively within the framework of a mixed economy.

But first we have to recognize, as we have not yet, that there is

this competition; that the Soviet is effective in this competition; that despite some of the setbacks that the Chinese have suffered, and obviously in the last few years, that they are going to be more and more of an economic factor in this world; that we are in for a difficult and grim time unless we anticipate our problems.

Now, I happen to believe that Mr. Khrushchev meant exactly what he said when he said, "We will bury you." And I am inclined to believe, although by no means sure, that if we have the good sense to maintain an adequate level of military preparedness, then he will try to defeat us in the economic field.

I say this very carefully, because I think that if we were to fall for the approach that this is inevitably only going to be an economic competition, and let our guard down on the military side, then they would shift their tactics immediately and, when the opportunity offered, whittle away at us with the small wars, so called; or even move with the big one if it was to their advantage and our retaliatory capacity were down far enough. So I think their policy is totally flexible, but I think they will in a sense retreat to economic competition if we maintain whatever is that magic--an adequate defense.

Now, as to our capacity to do all of these things at once, I am convinced that the American economy has not even begun to function in terms of this competition. I am convinced that we can do infinitely better. I am convinced that if the historians look back and find that we have failed, they will find that it is a failure of will, not of ability.

I am convinced that a free nation, with an economy still more than twice as large as that of its opponent, that an association of free nations with economies which compared to their opponents still are something on the order of 70 percent to 80 percent--that if we fail, it will not be a failure of resources or inanimate objects; it will be a failure of people. And one of the difficulties and one of the reasons that to date we have been failing, in my judgment, at least relatively, is that we have not identified the problem; and that too few of us, having identified the problem, have come up with solutions which in turn were viable.

Some of the things that I'm going to propose are intensely controversial, and I'm glad of it, because I think that only by ^{policy} controversy in a free society can there be adequate solutions. This, at least in political theory, is the fundamental strength of a democracy. Truth contests with error in the free marketplace of ideas, and from that comes a policy decision that is supported by the people of a democracy.

Now, I mentioned subsidies. I mentioned subsidies through taxation. I mentioned a few other things that I think put screws into this economy. Let me mention a few more.

I do not believe that much of our enterprise or many of our business managers have yet faced up to this need to compete. The loud squeals that one hears in Congress, when one is in Congress, from any industry that is affected by foreign competition would convince even the most slow to be convinced that a great many people who say they believe in competition don't like it when it's competition with them. One finds that those

who receive subsidies consider those subsidies as moral; but that those who do not receive subsidies, those particular subsidies, consider them as immoral.

One finds a great attack on American agriculture because the politicians have heavily subsidized American agriculture by the very people who get tremendous subsidies from policy makers in another field, perhaps a better-hidden field.

One finds that those who are involved in the use of a public facility for private gain consider this to be a moral approach to economics; but if there is any suggestion that the public may better serve itself by producing certain items itself through a force account approach, one finds that a great many people say that this is immoral.

One of the shibboleths that we are going to have to break through, in my judgment, in this country if we are to maintain a viable economy at home and effective competition abroad, is the illusion that in our particular type of mixed economy the only way anything can be done is by contracting it out to a private firm. I don't know how many toes in the room I step on when I say this, but let's take one example. And I have no brief for one service or another service, and I wish I could neutralize it so that one service wasn't involved as opposed to another.

But one approach to the space field and the rocket field has been by the Government contracting out to a group of private enterprises for development and so on. Another approach has been a force account approach. The clear example is Redstone Arsenal in Huntsville, where

most of this has been a force account job.

Now, clearly, at least as much success has been found in the force account approach to date as has been in the other approach. And it's just conceivable that people working for the Government directly and on the Government payroll, in supplying the public goods in defense, can do as good as or better a job than a private corporation inevitably and properly working for profit. What I am trying to do is to differentiate between the production of defense hardware perhaps on the one hand and consumer goods on the other.

I think we are going to have to look very carefully at this whole complex of problems. Not only am I talking about increased efficiency in procurement, but I am also talking about this shibboleth. It may be that we can devise methods of doing these things that will be better than the business of contracting to a private corporation, which inevitably will, and inevitably must, seek profits for its stockholders. It may be that we can do better the other way. I may be entirely wrong, but I think we should look at it without any prejudice. I think we should look at it dispassionately and objectively.

That is item one that I think we must do if we're to have the kind of economy that functions effectively in this area of competition, because there is nothing more destabilizing, no one single thing more destabilizing, in the American economy, so far as I am concerned, than the weak monopsonist. I love that phrase as a non-technical economist. I picked it up from an expert, and I had to ask him what it meant, and I'll tell

you quickly what he told me. The weak monopsonist is the weak single buyer. It is as opposed, obviously, to the monopolist as the single seller. And if you think about it, you will find that the Federal Government is a weak monopsonist in the purchase of many of its goods and services, not on all of them; but it is the single buyer of item after item, particularly in the defense field. And think of how much steel and other metals goes into that hardware; and if it happens, as I think it can be demonstrated statistically, that this may be the very substantial margin of profit and the Government is a weak single buyer, what does this do to price stability? If, for example, any metals producer is pretty sure that he has this proportion of his output that is going to be bought under relatively noncompetitive terms, what is his attitude toward price going to be? And everybody knows that the price of basic metals has a tremendous impact on the whole price structure in this economy. So this is a problem connected with the first problem that I suggested a possible look at.

Beyond this we need things a great deal more fundamental than this particular relatively narrow approach. We have to get away from our shibboleths. We have to recognize our economy for what it is. We have to rationalize our subsidies.

Obviously--and I can be completely nonpartisan about this--the program of neither party in the field of agriculture has made any sense from the point of view of the American people for 10, these many years. We have a situation in which we have an incredibly uneconomic use of

resources. We don't need increased agricultural production. In agriculture we have had the real technological explosion in the United States. The productivity of the American farm has increased way beyond our ability to use it. This is the one field in which we are clearly and demonstrably so far ahead of the Russians that it's really embarrassing to us. It's embarrassing to us in every possible way. It's embarrassing to us here at home, because we are using resources uneconomically; too many people are involved in agriculture for the needs today in terms of economics, not social welfare. We are producing too much, and we are spending too much of the general taxpayer's money to keep the farmer doing what he shouldn't be doing.

Then, on top of this, this is probably the most embarrassing single thing that we have in international affairs with the under-developed areas, because the Communists can move in and say: "Look at these idiots. They have these piles of grain and other food items rotting in storage while you starve." What could be better to hand to an enemy as a propaganda device than our agricultural program?

But there are other fields in which I think we should take a very hard look. Why should we subsidize advertising through the postal rates? Is this an economic use of resources? Is that what we want to do? Are we in this room anxious to see more and more Americans buying more and more cars and more and more toasters that play a tune when they pop up three pieces of toast? Are we interested in the kind of approach to our economy which means that more and more goes into the less and

less important things? And do you know what we do? We subsidize advertising incredibly heavily, again through the postal rates.

One combine of magazines gets subsidies of more than ten million dollars a year. And, of course, everybody knows that a magazine isn't paid for by the person who subscribes to it. It's paid for by the advertising. So we're subsidizing quite directly advertising. Maybe this makes sense, but I'm not sure it does. I'm not sure what this saving in the postal system would mean if we diverted it to defense or education or something else where we have a clear public need.

I think there ought to be a serious examination made of our subsidies in all fields. In the Joint Economic Committee we are now trying to identify them all. This is terribly hard to do, because some of them are so cleverly and well hidden. The average builder will tell you that FHA and VA insurance is not a subsidy; but I can demonstrate very quickly that it is.

It's a subsidy in this sense: that every time you guarantee one of these loans--and many of them probably would not be made without the guarantee--you are creating competition for yourself in the money market. The Government has to borrow billions of dollars. The Government has to turn over and refinance billions of dollars. And if you guarantee tens of billions of dollars of mortgages, you very surely are making for yourself competition, which in turn tends to drive your interest rates higher. This is one of the well-concealed ones, but it's there.

We should be looking at this problem of how we compete with

ourselves for the same things. We should try to devise policies which are more unified than ours today. We use on the one hand the monetary policy to try to maintain stability, and at the same time we insulate great areas of the economy from the effect of that monetary policy.

There are a whole variety of them. There are the various kinds of loan programs that are available to farmers and to small business; the procedure that we used for a number of years in the tax field of certificates of necessity for accelerated tax amortization. There are a whole array of them, where we are working at cross purposes with ourselves in the subsidy field and the tax field. In other words, we need to know what we are doing and know why we are doing it, and make our decision on the basis of the overall approach. It's infinitely complicated and infinitely difficult, of course. So is everything. Survival in this world is going to be extremely difficult, but it seems to me that it's worth the effort.

Now, one of the most fundamental problems, one that is most dangerous for anybody to get involved in in a political sense, is the problem of taxes. We have in this country a rather remarkable record. Most of our taxes are collected on a voluntary basis. They are self-enforced. Of course the Bureau of Internal Revenue is there and nobody ever knows whether it's breathing down your neck or not. But, by and large, the taxes are paid pretty much voluntarily.

Any of you who have had any experience in Italy, for instance, know that there is a very different situation there. The reason that our

taxes are paid this way is that, generally speaking, there is confidence in the tax collector. Generally speaking, there is confidence that the taxes bear equitably and that they are collected fairly and that they aren't part of a political football process. In Italy the situation is vastly different and the result is incredibly different. The rich just don't pay their taxes. They evade them. In this country it's still otherwise.

We are coming to a very dangerous time in this country. The technicians--and, remember, I made it clear that I didn't think myself one--at length testified before the Committee on Ways and Means this last fall and in effect said that our tax system is no longer equitable; that the erosions which have been allowed to take away from the tax base are so vast that there no longer exists equity. And I am convinced that if we are to have a stable, growing, fully employed economy, we must engage in a massive tax reform. And I hope you'll check me out on this afterward, those of you who are somewhat interested, because what I'm going to say is going to sound a little bit like pie in the sky. It just happens that it isn't, that it is statistically soundly based.

The maximum amount that was suggested that the base had been eroded over the years by various special interest erosion and favoritisms is something of the order of 113 billion dollars--113 billion dollars taken away from the tax base. Now, that includes a wide variety of erosions. Some, like the depletion allowances on minerals, are already very controversial. Some are not quite as clearly a favored treatment for a particular small segment of the economy; but until you begin to think

about them, they sound very fine and humanitarian. For example, one very good illustration of this, that usually shocks people, is the special additional exemption for a person who is blind.

Well, now, why should a blind person who happens to have a very large income get that particular treatment? Is there any logic in this? Why shouldn't the subsidy to the blind be more direct rather than through a tax approach? Why is it that we favor people like many of us here and I, for example, who happen to be married, as opposed to the people who aren't? Why should there be a split-income provision? Why should we treat dividends, as far as withholding is concerned, differently than we treat ordinary income? Maybe we should. I'm not saying we should or shouldn't for the moment. But why do we permit these kinds of favoritisms? Why is it possible, when we believe in a fair and equitable tax system, that, as Mr. Mills, the Chairman of the Ways and Means Committee, ^{ed}point out in an article in Life Magazine sometime late last fall that it is possible, for a man who lives in an identical house down the street from another man, both of whom get in money terms the same amount of income, for one to pay 50 percent more taxes than the other simply because of the way in which the income is received? Now, is that equity? Does that make sense? I don't think so.

Now, why is this so important? Why do I spend so much time on this? Because I think it is the core problem which must be faced if we are to have the kind of economy that can effectively compete. I think that we have to remove the other favoritisms that exist, and rationalize them.

and make them make sense, and make sure that if we're subsidizing something, we are doing it because we know it and we believe that we need it; but that we shouldn't just be subsidizing things sort of by accident and because they aren't part of an overall policy.

I mean this in terms of direct subsidies, tax favoritism, and tariffs. I think we ought to free up this economy, so that we have a great deal more competition; but I don't think we have a chance to do this unless we do something about taxes. And this is going to be very difficult, because every one of the groups affected, every one of the favored groups, is going to stand and fight until it dies to prove to everybody else that this is justice.

Now, how can this be made viable? How can one have massive tax reforms? Only in one way, and this is where you may suspect me of pie in the sky.

If you restored to the tax base roughly half of that 113 billion that that technician talked about, you would actually be in a position to cut rates, and cut rates all along the line, in such a way that the vast majority of the people would be somewhat benefitted, and only injured would be those who are being favored unduly today. In other words, you would take on all the special interests in the public interest. And this could only be done, in my judgment, by a President who understood this fully and recognized its importance.

Now, why is it so important? There are some people who have told us in the past that if we have a satisfactorily growing economy, we

will have automatic stability. I don't believe it. There are other people who tell us that if we have effective stability, that then we'll have satisfactory growth. I don't believe that either. I believe that it is clear on the record of the last thirty years that monetary policy alone cannot achieve stability; that the only way in which we are going to have reasonable price stability in this country--in other words, not have the kind of inflation that redistributes income every ten years--is by linking to an effective monetary policy an effective fiscal policy.

All of you have heard of a gentleman, much misquoted and much misunderstood, called Lord Keynes. But it's an interesting thing that the American politician or policy maker has adopted Lord Keynes on the down side. Any time that we are in a recession, you will find that the American policy maker, regardless of party, in overwhelming numbers, is for deficit spending. And most people who study economics agree with this. But the dilemma is that most of us haven't bought the other side of the Keynesian approach, and that is the substantial surplus in boom times. And we aren't really going to have substantial surpluses and meet our public needs,--which, incidentally, I think should be at a considerably higher level, but I haven't got time to go into that today--at a considerably higher level than our present budget--we aren't going to have those surpluses in boom time unless we do reform our tax system and unless we do determine to use fiscal policy as an adjunct to or partner of monetary policy.

Now, if we do this, then I think there is a reasonable probability of

stability. And stability needs no explanation as to its importance.

And I think further, if I am correct in my approach to the tax problem, we will free up at the upper bracket levels and down the line more investment funds, which are essential to growth. And we must grow, because let's face the political fact that if we do not grow more rapidly economically than we have been, we will continue to see the gap between ourselves and the Soviets narrow; that they will continue almost inevitably to use a larger share of their smaller pie for purposes of national power; and that the only realistic way that we're going to get more into power is by taking it out of an increased increment.

I don't believe--and I wish I could say that I believe--I do not believe that the American people, short of an obvious war, are going to stand for a substantial cut-back in their standard of living. I do believe that if they understand the dangers that we face, they will stand for a cessation of a constant increase in the standard of living. And this makes the problem of growth fundamental. And the problem of employment goes with growth and with stability.

In a vastly oversimplified way, what I have said is that, in my judgment, the core of an effective economic policy here at home from the Federal point of view--and that's what I'm talking about--is reform of the tax structure, rationalization of the subsidies, and a general approach to the whole overall problem which gets away from the catch phrases, which gets away from the approach which says that we have an

economy that is totally competitive and entirely free enterprise, when it is not in fact so, which is willing then to say that we will produce our public good and our public services in the way which is most efficient in terms of the general taxpayer's dollar; in other words, that we will move ahead to identify a set of problems; and, having identified those problems, devise solutions; and, having devised solutions, throw away our special interests--and every one of us has them--and try to have a policy which rises above the deadfall between special interests and is actually in the public interest.

Now, if we are able to do this--and I believe we are still--I don't think we have many years more in which we can afford to do what we have been doing since World War II--if we are able to do this, I am utterly confident that our system is more viable and is more effective economically than is theirs.

I remember when I served quite a long while in the Pacific during World War II that it wasn't until I got to Japan and I got an opportunity to look at the Japanese records, that I could understand why we were winning, because I thought we made a lot of mistakes. We did, and everybody admits it. But I couldn't really understand why we were doing better than they were. I finally found out when I got a chance to look at their records. We weren't doing perfectly by any means, we were making mistakes; but when they made mistakes, they really made whoppers, because there was no check on them. They were made by a very limited

group, who then enforced them entirely. There was no freedom in exchange of ideas. There was no evaluation as to alternatives. The decisions were made by a very limited group. At first they seemed to do superlatively well, but then gradually under pressure their decision-making process broke down to a very great degree; and their mistakes became bigger.

In effect what we have to do, in my judgment, is to use our greater power in the economic field to bring pressure, and, bringing pressure, to cause the failures of a totalitarian system to come to the surface. In this kind of venture, no single group in this society will succeed. This is the kind of thing that will have to be arrived at by a consensus among all groups. This cannot possibly succeed unless American business is willing, and even anxious, to compete; unless American labor is willing and even anxious--and much of it is, although some of it is not--to increase productivity; unless the American people generally understand that there will be certain social costs to business and to labor in achieving a more effective economic system; and that this kind of a burden, both on business and on labor, should be shared by the people generally.

, above all,
And none of this can be done unless those who are derided often in the American cliché as politicians, and who are actually the people who for better or for worse make the policy by which this country lives and moves, have the courage to say to a great many people a great many unpleasant things.

DR. KRESS: Gentlemen, the Congressman is ready for your

questions.

QUESTION: Recently from this platform it was explained to us how effectively the Federal Reserve System operates in the monetary policy area. Apparently they are very well insulated from politics, that is, the so-called pressure groups that are operating in the tax field. Would you suggest that perhaps a similar insulation of fiscal policy might be an advantage rather than a hindrance to what you think ought to be done?

MR. BOLLING: Well, if I took that position, it would be a denial of my own view--and this is very fundamental--as to the way a democracy functions.

I don't want to bore you with this, but I want you to ^{know where} understand I stand on this whole business of the Federal Reserve. It just happens that years ago, in 1951, I guess, I served on a subcommittee that went into this whole question of general credit control and debt management; and I found myself, as often happens to me, in a position that was unlike that of almost anybody else in the committee.

We have some people--and I understand that to another class some years ago a representative of that point of view spoke--we have some people who feel that the Fed should be quite ^{the} contrary, should be put much more in the political process. We have others who feel that it should maintain the kind of insulation--and some people say "isolation"--that it has now. My own view--and I'll get to the tax thing in just a minute--but have to come through this to make any sense--^{is} that

while I have a great admiration for Mr. Martin and his staff all the way down the line--I think they are honest, utterly objective people within their limits--that they are a little bit too much isolated.

This does not mean that I think they ought to be put under the Executive or more under the Congress. It does mean that I do think their Board and their regional boards should be more representative of the body politic. I think today they tend to represent more or less a banker's point of view. This tends for them to have a vested interest in their own inadequacies. You noticed in what I said earlier that I thought we had to supplement or complement the Fed's activity in monetary policy with fiscal policy. I think that they have to recognize where they have their deficiencies and where their general approach is not general at all. It has a very selective impact.

Our studies of the last year would indicate that, far from our general monetary policy being general in its impact, it is quite selective; that it doesn't, for example, have much restraint on the investment plans of the large corporations; that most of these corporations get their capital internally, in other words, from the profits of the previous price structure. The people that are hit are the people who build residential houses, small businesses, and generally the farmers. So I think that even in monetary policy, in that general area, there needs to be improvement. I think that the Board should be more representative of the general body politic. And I think that they should be more willing to accept additional tools.

I've had a running argument with Bill Martin for, I think, eight

years as to whether or not he didn't need additional tools beyond the
control
fiscal ones--consumer credit perhaps on a standby basis, perhaps in
effect; perhaps a greater attention to trying to smooth out the peaks and
valleys in capital investment. I don't know the answer to this. Maybe
exhortation is the only thing.

But now, to answer your question and put that one in perspective,
I go so far as to feel that perhaps it is correct that, if we are to have a
truly sound fiscal approach to the problem of stability, in other words,
the deficit when the economy is slowing down too much and surplus when
the economy is booming a little bit too much, so that you don't have this
peak here and this valley there; we move more or less along on a more
even keel--I would think that there is a very good possibility that one should
put in the hands of the Executive--I wouldn't say, in the hands of the Fed--
the power, within very limited amounts--and I'm talking in terms of
units of billions instead of tens of billions--to remit taxes and to put in a
higher tax rate. Perhaps this would go in in the first bracket, because
the Executive, or whatever agency was given this power--and you could
argue that it should be an insulated agency; I don't happen to think so--
could move a great deal more quickly to up and down taxes, to raise and
lower taxes, than is conceivable in the Congress.

You take a look at the history of tax legislation and you will find
that even when the Executive has a sympathetic Congress and makes a
tax proposal, it takes months and sometimes even years to get action.
And if this fiscal policy approach is correct that I suggest--that it must

be wedded with monetary policy to achieve stability--then I think you've got to put a trigger in the hands of a responsible agency to move more quickly.

Whether this should be an insulated agency or not, I don't know. Inevitably, as a politician, I believe the policy ought to be made by the democratic procedure, not by insulation too much. But I'm frank to confess that I think there should be some insulation.

Now, the President is the most insulated of all people. Why? Because he is the least subject to any one special interest group--the least subject. He deals with the body politic as a whole; and, in my judgment, has greater freedom to make decisions in the public interest than anybody else.

QUESTION: You have given us your feeling as to this farmer in Missouri who has some bottom land and maybe a couple of hills, with respect to subsidies. Could you also give us your thoughts as to what methods we might utilize to eliminate subsidies of this type?

MR. BOLLING: I think there are a number of things that need to be done. This is where you get a good illustration of how this warp and woof of the economic cloth are inseparable.

I come from Kansas City, Missouri, which is a city without any farmers there, and yet we are more affected by the farm economy than almost any city that I can think of, because we are basically an agricultural center.

I think that, No. 1, the key answer to that is that if we have greater success in achieving economic stability, in other words, fewer peaks and valleys, if we at the same time maintain full utilization, full employment, then the social problem of the farmer who does a very efficient job but whose product isn't really economically needed, is in large part answered by his transfer into an area where he is needed. This is sort of a broad generalization.

To be more specific, I think that the kind of farm program that we have had for a number of years makes no sense, because in large measure it has been based on acreage controls. And, as I said earlier, the technological explosion in the United States has been in the product from those acres. You cut down the acreage and they put in more fertilizer and better methods, and they produce more. So that, obviously, if we're going to have a farm program--and I suspect one is going to be necessary for some time--the controls have to go on commodities, on products, rather than on acreage.

Then I think we ought to work out a program which doesn't make the general taxpayer pay twice for the subsidy. In other words, we shouldn't have a program which tries to keep the price to the consumer high; that we should let products find their own level in the marketplace; and if for social reasons, if for reasons of decency in not wanting to have every farmer poverty stricken, we then feel that there should be some subsidy, it should be a frank subsidy above the board between what the

farmer actually gets in the marketplace and, say, cost of production plus a little for labor; so that he gets a decent living. But this business of keeping the price up here in order to see that the farmer gets a decent income hits an awful lick at the general public, because they have to pay the higher price for the product and at the same time they have to pay a large share of the subsidy.

So what in essence I'm saying is that if we do feel that for social reasons, for reasons of equity, we need to maintain a farm program, it should be a rational one, not this irrational one that we now have. But the basic solution lies in having there being the ability to use our resources, manpower and otherwise, economically; in other words, move that farmer whom we don't need into a good job somewhere in a city producing something that we do need; maybe move him off the farm and put him teaching school. We have a big shortage of school teachers. I don't mean by fiat. I mean by flows within a free-decision economy.

QUESTION: Assuming that we could have a candidate who came up with your type of program, and assuming that the mass of the people were behind him even though their voice might not be quite as loud combined as the voices of the interests that would be against him, and that he still would win, can he on a four-year term with a Congress elected for a two-year term accomplish his mission?

MR. BOLLING: Well, this raises the question as to whether the House should be elected for four years. I think the only way that a politician, be he the President or anybody else, succeeds is by having a

majority of the people with him and having the courage to face up to the people who are against him. That being the case, it doesn't make much difference. If his policy is going over in the first two years, he is going to help reelect a Congress in the second two years that will be viable, that will be for his program.

Actually, history will show that the effective and productive years of the average President are the first three years of a four, eight, twelve, or what-have-you term, barring calamitous circumstances where, in effect, as some Presidents have had, first they're domestic Presidents and then they're wartime Presidents, and they have two careers, almost, as President. But ordinarily it isn't the rot that sets in. It's the group moving in, the loss of momentum that ^{you} see ^{see} very clearly if you're in politics. ^{freshly} A President who is ~~immediately~~ elected has a sort of surge to the people who have just given him a mandate. There are ^a few people in Congress-- and I'm not being facetious-- who don't have very strong convictions and who sort of follow the tide. There are very few. You'd be surprised at how few. Most of the people that I disagree with hold their views just as firmly and just as honestly as I hold mine. But there is a little float, and that float tends to go with the momentum of the President.

So I don't think that this is really a very important point. I think that if the President has clearly stood up to the set of issues that has made his solution viable, then he's going to be able to get over what he wants to get over.

QUESTION: You pointed out that there is a distinct difference between education and training. This was very well brought home to us by your words. Then you mentioned that you had certain technicians in your office giving you inspiration on economic problems. I wondered if that meant that economists were trained but not educated.

MR. BOLLING: Obviously, not being an economist, I am not competent to answer that.

QUESTION (continued): My question is with regard to an eminent vice admiral in the Navy who is making very much noise in regard to education/ I wondered if in your judgment--and I have one of my own--this is not furthering the training that you somewhat object to, instead of the education.

MR. BOLLING: I can honestly evade the answer. I haven't read Admiral Rickover's most recent contribution.

I have run into that attitude--that there is only one kind of discipline that is important,-- from a great many people. And I think that this, if I understand what his position is--that we have to train people to scientific methods and that we have to have more and more specialists in this and this field, and that the only thing that is important is a certain kind of discipline, I disagree with him flatly.

I'd like to clarify my use of the word "technician" with regard to economists. I use the word in a broader sense than the average person. These are people who are technically trained. I am not. I am the chairman of a subcommittee on statistics, but I am not a statistician. And this

is the sense in which I use the word.

I happen to feel that what we need today particularly--and this may sound a little high-flown--are not only people who are highly technically trained, but we also need people who are able to make use of the products of, to use a technical term, a great many disciplines. We have to have generalists who can make policy decisions that take into account the best information that is available from the specialists. And I think this is a certain kind of education, and I think we need more people educated in this way than we are now producing. This is not inconsistent, because we also need more technicians. We are deficient in our educational system, in my judgment, in every field.

QUESTION: Occasionally in the military service we find that for purposes of efficiency or economy it is desirable to either close an installation or cancel a contract, and that has a very great economic effect upon one area. This often results in either delay or failure to do so, due to economic pressure coming through the elected Representative from that district. Do you think that this broad change in viewpoint which you have described is necessary to accomplish this purpose or that it can be accomplished in this climate where even in the field of defense we have that situation?

MR. BOLLING: Yes, I do; and I do because I think we have to go one step further--and I mentioned it very briefly--in our approach to this kind of problem. I'll broaden it a little.

There is a provision in the law which says that special account

shall be taken of the economic situation in given areas around the country in the letting of contracts. This is my idea of the wrong way to do business. It's done because there are a number of areas in the United States which are chronically depressed. They are areas which have not been successful in competing and which are suffering a great deal of social damage as a result of it--years and years of unemployment, and so on and so on. The most dramatic example of this is in the West Virginia coal fields.

Now, I don't think there would be any problem of interference with defense policy if we had a sound social approach to the human beings involved. My own judgment would be that involved in this is an improvement in unemployment costs, for example, in unemployment compensation. I think that specific provision should be made by law for a better method of finding where jobs are available in the United States. Do you realize that our State employment-security set-ups are just within the States; that there is no real coordination among the fifty States as to job availability and unemployment and so on?

Furthermore, I think it is a responsibility of society as a whole, either ~~at~~ at the State or Federal level, when an individual is no longer useful in that particular area, not only to find him a job, but to give him an opportunity for retraining; so that you are making some sort of efficient use of him.

Now, if this kind of thing were on the statute books, which recognizes that these problems are social as opposed to economic, then you

would free up a great deal of the pressure that exists on the politicians to at any cost maintain that defense installation. A defense installation should be located and kept in being on the basis of defense judgment, not judgments as to the economic or social conditions of Areas A, B, or C. But the only way that you're going to free this up so that you can make your judgments on a rational basis is to make sure--to put it very bluntly--that that guy and his family aren't going to starve to death.

So that, curiously enough, a reasonably generous and intelligent social welfare program intimately fits a rational policy program in the defense area. But you should make it plain. If you're going to subsidize a fellow, you subsidize him not at the expense of defense; you subsidize him. You put it above the board and try to make it the kind of subsidy that is constructive and creative, that will make him a more productive citizen.

DR. KRESS: Mr. Bolling, as an economics generalist, I very much appreciate your appreciation of the species. On behalf of all of us, I want to thank you very much.

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