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THE REVIEW OF ECONOMICS

Dr Andrew J. Kress

INDUSTRIAL COLLEGE OF THE ARMED FORCES

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THE REVIEW OF ECONOMICS

12 September 1960

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DR. KRESS: General Mundy, Admiral Patrick, Gentlemen: This morning we shall concern ourselves with a general discussion of basic economics with some reference to the Review of Economics section of our course.

I am well aware that everyone who has been on this platform has said something about economics the first day he came. So that, if I can produce something different today, it will be due to sheer ingenuity.

It reminds me of a little story which is appropriate at this time. There was a mother polecat, one of those with the wide white stripe down the back, living in the forest with two little woods pussies. One was named In and the other was named Out. One day In was out and Out was in, and the mother said to Out, "You go out and bring in In." So Out went out and after a long time he returned without In. The mother scolded him. She told him that she had given him a job to do and that he had not done it. So again she told Out to go out and bring In in. So he went out and was back almost immediately with In. The mother congratulated him on having done his job well and asked him how he had accomplished it so quickly. And Out replied, "In-stinct."

I have a little chart over there which will give you the five main divisions of my talk and I will try to indicate to you from time to time where I think I am on that chart.

1. Economics--Backgrounds and Stepping Stones.

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. You know we have had some talk about that, too. Economics has no laboratory in which to conduct its research and test its conclusions, unless you regard the whole wide world of human beings as its laboratory and workshop. Such a workshop is unwieldly at best.

Economics lacks exactness as to its forecasting abilities, in particular situations, since human beings have the capacity to say "No" when all the data indicates that the forthcoming answer will be "Yes." In forecasting general situations, however, economics does much better.

Bust, if we use the dictionary, we find that a science--any science--consists of demonstrated truths or of 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 in pursuing its ends, and each of us here this morning has a whole series of currently pressing personal economic problems.

It is interesting that economics was once called "political economy," the economy of the political unit. This situation persisted even after the turn of this century. But, during the period roughly from 1900 to 1950, we spoke of the science of economics. Today we are noticing an increasing tendency once again to consider economic facts in relation to the national political unit as the concept of the welfare state grows in intensity.

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

Writing on economics, of course, goes back many centuries before the beginning of the Christian era. Many like to refer to Plato, Aristotle, and Xenophon as formal writers on economic topics. All of them made important contributions to political and economic theory, but without attempting to develop a complete text.

I like to back even farther in history. The "Code of Hammurabi," composed roughly about 2000 B. C., set standard wages for the skilled workers of Babylon and fixed prices for the sale of cattle.

Advancing 1500 years to 551 B. C., we find the Chinese statesman, Confucius, advocating: 1) government price-fixing, 2) state aid and relief for the aged, 3) equality and universality of taxation, and 4) the abolution of tariffs. (Perhaps our first free trader.)

The economists of the Middle Ages were basically philosophers--and, for that matter, what economist today is not? These philosophers were concerned with the ideal in mankind and stood for the idealistic utopian treatment of each and every person.

But it is still to Adam Smith that critics of our modern economy turn to find a whipping boy or scapegoat. Smith and his followers, often called classicists, are accused of generating the concept of laissez-faire and of turning loose on mankind the modern, greedy, profit-maximizing entrepreneur.

No amount of explanation that Adam Smith simply saw that the state had theretofore interfered too much with men's lives and left them stagnated, or that he was also a professor of moral philosophy in the University of Edinburg, will placate those who today castigate Smith. They seem to desire to return to the very system of state controls that he helped overthrow.

I will not weary you this morning with a rehearsal of the many and various schools of economics and of economists that have followed Smith. Their names are legion. But I do want to make a point that I think is important. The 19th century socialist school of Karl Marx was preceeded by a formidable group of writers now known as the pre-Marxian socialists. It included several aristocratic and rich men, such as the Frenchman, Count Henri de Saint-Simon (and just in checking to see if I had his story straight the other day I found to my surprise in the encyclopedia that he had also been with the French at Yorktown). Robert Owen, an English textile tycoon, was a member of this school, and the German aristocrat, Ferdinand LaSalle.

Karl Marx, then, who lived from 1818 to 1883, was not the first writer on the economics of socialism, and certainly will not be the last.

Of the various main schools of economics that are identified under such names as the classicists, the post-classicists, the revisionists, the historical group, the socialists, the Fabian socialists, the statisticians, and the econometrists, we find distinguished Americans belonging to each. But no particular American school of economic thinkers has arisen. Americans have perhaps contributed as much or more to the recent statistical and econometric schools as to any other.

As I have said, America has produced many great economists both as writers and as teachers, but perhaps America's economic genius lies in the practical application of economic ideas to everyday living. Although we have produced no distinguished American school of economic thought, I want to refer this morning to two American writers on economic theory.

Among the economists describing themselves as institutionalists, we find the name of the American, Thorstein Veblen, carefully enshrined and very high on the list of those who have influenced the school. The American Economic Association devoted a whole program to him three years ago at the time of the Association's annual meeting. Veblen is remembered as a caustic critic of modern American ways and manners, but himself did not offer a complete economic or political system as an alternative to that which he criticized. He is probably best known for his work, "The Theory of the Leisure Class," published in 1899.

The second man that I wish to refer to is John Kenneth Galbraith, presently teaching at Harvard. A few years ago he formulated his theory of countervailing power which, as usually happens when new theory is proposed, set the economic world into opposing camps. Greatly oversimplified, the theory of countervailing power holds that, if any one of the three factors of production--which are land, labor, and capital--becomes too powerful, the other two will temporarily combine to reduce the overstrength of the third. Or should we list the three opponents as mass production, mass labor, and mass buying, with some government control over each? To me, this theory of countervailing power has great appeal.

But I am not so much persuaded over Galbraith's more recent publication, "The Affluent Society," (I'm sure the Book Store has some copies of that). Although this was not written especially for economists, they have taken a great interest in the book and, of course, are taking sides, for and against. Galbraith would expand the role of the State in providing additional and more services to the individual citizen, funded by a huge increase in taxes. His claim is that these funds exist and are being spent by individuals, but not necessarily as efficiently as the state could provide common services for the benefit of all. One of the faculty the other day told me in a conversation that in talking with one of the students he was told by the student that he hadn't heard anything but socialism since he has been here.

Your course will be the eighth time that a review of basic economics has been given here. (I might add that I am on the other side of the fence.) While many changes have been made in the details of the study, the old French proverb still holds: "The more things change the more they are the same." We have labeled the course as a refresher course, as a review course, and as a study of basic economics. But, unless your class becomes the exception to the rule, all classes have found it worth-while.

Our overall objective, then, is to have you recall basic economic theory material that everyday operative conditions over the years have long since relegated to the remote recesses of your mind. More particularly, we want you to relate this economic theory to your own actual experience and, even more, we want you to apply this theory to the balance of your year's work.

This morning at 11:30, or ten minutes after the end of this talk, you are asked to meet in discussion groups in your nine assigned discussion rooms--the same ones that you previously had in Government as discussion sections. At that time the details for the conduct of the

Economic Review Section will be taken up. Ten discussion periods of 1-1/2 hours each have been arranged, supplemented by eight specialized lectures, in addition to this one. These discussion groups are intended as an opportunity for you to ask questions on the assigned reading material for the day, questions on matters that are not clear to you, and questions intended to make your own everyday experience jibe with the economics textbooks. (In most cases we can solve the dilemma.) Have your questions ready, then--lots of them--because, if you do not question the instructor, he will surely question you.

While I am about it, let me expose to you one of the economist's favorite dodges. When cornered in an argument, the economist will always ask whether you are speaking of the long run or the short run. Whichever you answer, he will take recourse in the opposite.

During the Review of Economics Section we will present to you for consideration many, many economic problems. I want to make passing reference this morning to five problems which are currently facing the United States in particular and the world in general. These problems are critically urgent, but the solutions are not readily apparent. These many economic problems will plague you throughout the school year. Their discussion will enter your car pools and will be noted in your committee reports. They will dog your footstaps well into the future. Five of these current problems are:

1. Productivity and its Measurement.

2. The Inflationary Effects of our Full-Employment Policy.

3. The Cold War and Its Economic Effects.

4. Economic Forecasting.

5. Problems of Changing World Trade Patterns.

Now for the first one, the problem of Productivity and Its Measurement. (Slide)

How do you measure economic activity? How do you know whether an economy is regressing, is progressing, or is just standing still? There are several ways. One way, and it is a rather recently developed way, is to measure the productivity of labor.

Labor productivity is the ratio of output to the number of man hours expended to obtain that output.

It is measured in physical terms, although that measurement is often expressed in monetary units.

For the whole economy, the ratio of productivity may be expressed in terms of the entire national product, divided by the number of man hours employed during the period under consideration--a year, a quarter, or six months. Productivity is thus expressed in monetary terms. When expressed in physical terms for an industry, it may be the number of tons or the yards of product produced per man hour employed during a specified period.

When an attempt is made to combine the several elements of productivity into a single aggregative measurement index, difficulties arise. All elements must be included and all must be weighted in some fashion or other. In addition, all elements must be translated into monetary terms, to get a common denominator. The inclusion of so many elements often results in a distortion. We do not always get exactly the same answers as different researchers and statisticians study the same economic data.

There is much interest today in comparing national productivities--that is, in comparing the economic growth rate of one nation with that of another, specifically that of the United States with that of Russia.

The highest estimate we have of the growth rate of the United States since World War II is a productivity increase of 3.4 percent annually. Others insist that, except for the Korea years, the rate has been as low as 1.5 percent annually.

On the other hand, we are told that Russia is increasing her rate of growth by 7 to 10 percent annually and will surpass us in another 20 years. What are we to believe?

Another connection with this productivity change in rate is that of its connection with wages. Labor unions watch productivity measurements very closely, arguing that wage increases, by industries, should be tied closely to increases in productivity. Others would prefer to see productivity increases passed along to the general consumer in the form of lower prices for the product, thus benefitting everyone and not merely the workers in that industry. So you see the problem of productivity is also very closely related to the problem of wage rates.

Problem No. 2: Inflationary Tendencies and Full Employment.

(Slide)

I show you now a chart indicating the increase in prices in each of our major wars. The price curve for each war is superimposed on the others. You will note that they have certain characteristics in common. The price level for each war goes up tremendously on the outbreak of war. You will also note a sharp reduction in prices five years after each war and an almost complete return to the prewar base within ten years after each war. The exception is World War II. As you see, it trails off there into the Korean situation, but even here you see a sharp reduction until the outbreak of that Korean conflict.

Why has the pattern for World War II and the Korean War not followed the patterns for previous wars? Has the collapse merely been delayed? (My old mother always taught me that no one is so blind as he who won't see.) But I suspect that you will not again see such a complete collapse of prices for reasons I will now develop, although such a collapse could happen.

(Slide)

I show you now a chart covering the cost of living for the past few years. It does not follow the earlier postwar patterns. In fact there is a total increase of 10 percent since 1954. The reasons for this steadiness in prices and in the cost of living since World War II are many, but among them is the adoption of a full-employment policy by the United States at the close of World War II. This full-employment-policy legislation is the extension of our experience with our system of built-in stabilizers, slowly built up during the great depression of the thirties. These automatic stabilizers include:

a) Payment of weekly unemployment benefits;

b) Social security payments to the old, the infirm, and the orphaned;

c) Guarantee by the Government of bank accounts and savings accounts;

d) Guarantee of the payment of mortgages to mortgage holders;

e) Subsidies to farmers; and

f) The great growth in pension and fringe-benefit payments to all classes of the population.

Also, during the depression, the Government learned to operate a huge series of made-work programs which provided work for persons laid off by private industry. And the Government stands ready to take over in such a situation again. It was the uncertainty as to the economic conditions that would prevail following the war that led the Government to adopt the Employment Act of 1946. It was originally to have been called the Full Employment Act, but the content was watered down somewhat. (Let me hasten to add, too, that it has never been seriously tested since the date of its adoption.) It does not require, as was originally intended, that the Government provide a job for anyone who says he wants a job and is unable to obtain one with private industry. (I believe that the Swedish system which is in operation does so provide.)

(Slide)

The stated purposes of this Act are:

To enable the Federal Government to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining in a manner calculated to foster and promote free competitive enterprise and the general welfare conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power.

You will note that it says "in a manner calculated to foster and promote free competitive enterprise and the general welfare conditions under which there will be afforded..." That's very important.

Economists are not as divided as they once were over the question of whether inflation was automatically inserted into our economic order by the provisions of this Act. There has been the slowly emerging realization that if there really is full employment--that is, all persons seeking work are employed--then new projects and new personal services can only be staffed with the required labor by hiring the necessary workers away from their present employers. This can be done only by offering increased wages and greater fringe benefits. (In Germany today we have exactly that situation.)

However, there is currently a new division among economists. There is dispute as to whether we can or wish to avoid a creeping inflation of, say, 2 percent per year. One group says such a percentage of annual inflation is a small price to pay for continuing prosperity, and this group seems to think that a slowly firming price level is the best medicine that can be devised to keep the entrepreneurs working at top speed. Gently increasing prices give the profit-maker a sense of well-being.

The other group says that ways can and must be found to keep prices stable while keeping production high. They are not agreed, however, as to how this can be done. Those of us who are approaching retirement years find ourselves hopeful that such means can be found.

Problem No. 3. The Cold War and Its Economic Effects.

We have been in a state of cold war or in a state of hot peace at least since 1947, when we realized that Stalin did not mean to let things simmer down internationally. The economic consequences of this cold war are taking several forms.

The United States must have a considerable military force in being at all times, well supplied with munitions and general equipment. Americans have become resigned to the continued payment of what are, for us, high taxes, to finance this continuous mobilization. As I said, we have become resigned to these greater taxes and to a certain extent have become used to them. But just conjecture for a moment on the things you could purchase with your own tax money.

There are many other economic consequences of the cold war. You will consider these in some detail in one section of the Final Problem.

You have already been told that the Russians have said that they will force us, the free world, into bankruptcy. They may be thinking of the continuing cold war; our foreign programs; loans; grants; military aid; and Point Four assistance to the underdeveloped areas. All of these are costing us about $5 billion a year and have cost that much or more annually since 1948.

It is my purpose here this morning to tie these expenditures into a consideration of one of the oldest and most elementary basic economic concepts--the quantity theory of money. For some time this concept was confined to the elementary textbooks. Today it is the subject of learned papers presented to the committees of the Congress.

(Slide)

Stated in its most simple form, it is that, other things remaining equal (ceteris paribus) the value of money varies inversely with its quantity. Examples of its working are many and varied. The most striking may be taken from new ventures in underdeveloped areas.

When we help to build a dam for irrigation purposes in a desert area, or help to build a steel mill in a previously underdeveloped area, we pour huge sums of money, in the form of wages, into that area.

But there is no immediate increase in the means to supply food and manufactured goods. The new wages really compete with the old ones for the scarce supply of immediately consumable goods. Result: Prices go up. Of course, the irrigation project and the steel mill will eventually come into production and the balance between supply and demand will be restored.

Problem No. 4. Economic Forecasting.

I have the fourth problem listed third on the easel chart. It is concerned with the need for and the possibility of forecasting economic events to come. In order to know what may happen, we need to know what is happening. This means the collection of statistical data.

The United States has gathered and published general business statistics through its several executive departments and agencies for many years. At first this information was gathered only for the purpose of informing, and further, only for the purpose of informing those who wished to be informed. This meant mostly for the benefit of individual business men. There was no intention that the Government or the Congress would take any action as a result of the acquired statistical knowledge.

During the depression years of 1929, 1930, and 1931 it became obvious that more information was necessary. What information there was existed only in scattered and fragmentary form.

On 9 June 1932 the United States Senate, by resolution, asked the

Secretary of Commerce to report to it on or before 15 December 1933--giving him about 18 months, because it was a very large task--with two sets of estimate showing, first, the national income of the United States and what sections of the population produced this income. The Senate wanted to know what portion of the national income came from agriculture, from mining, from transportation, from manufacturing, and from other occupations. Secondly, it also wanted to know how this income was distributed in the form of wages, of rents, of royalties, of dividends, and of profits.

Thus was the United States given the beginnings of a national income-accounting system. Some nations had such a system prior to 1933 and most of them have it now. These data are collected and centralized by the United Nations staff. They are printed annually in English and in French in the "United Nations Yearbook." You will be seeking such information in your work during the last two units of this course. (Professor McCracken from the University of Michigan will tell you more about this system in his talk here on 16 September.)

From 1933 to 1946 we contented ourselves with gathering this information. In 1946, with the passage of the Employment Act, we took another step toward activity based on the data gathered. I have previously referred to this Act in connection with the philosophy of creating job opportunities. But there is much more to the Employment Act of 1946 than the mere statement of policy. It requires action as well.

This Act requires the President to send to the Congress in January of each year a report entitled "The Economic Report of the President." This is another document you will become quite familiar with during the year. This report must not only inform Congress as to the existing industrial and economic conditions and trends but must also offer any recommendation for legislation which the President thinks is necessary to keep the economy stable and viable. Further, it must offer a program for carring out these recommendations.

This requirement immediately put the Office of the President into the business of interpreting the statistics previously gathered. This it does through the Council of Economic Advisers. After a few months this Council found it expedient to gather and publish a monthly set of statistical indexes and charts under the title "Economic Indicators." Each chart has a topical sentence pointing out the trend of change from the previous month. So this is an interpretation.

You will find in your mail boxes on Friday, the 16th, a copy of the August issue of "Economic Indicators." Please do not fail to bring it to the lecture on Monday morning at 8:45, when Professor Gainsbrugh will initiate you into the niceties of interpreting this set of indexes.

At the end of the year the President's Report can be based on this monthly collection of data.

The Employment Act of 1946 further requires that, when this report is received on Capitol Hill, it be referred to a joint committee of both

Houses for further study, analysis, and recommendations. This committee is called the Joint Economic Committee and must, of course, have its own staff which checks and doublechecks the work of the President's statisticians.

It has become commonplace for the Joint Economic Committee to hold extended public hearings, asking the views of economists, business men, and industrialists on the happenings and trends in the economic and industrial life of the United States, and, further, asking for their recommendations as to any necessary legislation. Now, while both of these procedures may be somewhat short of economic forecasting, they are a full step forward in that direction and toward that process.

As a result of this Act we have developed a whole series of individual economic forecasters of things to come--some foreseeing only optimism, and some foreseeing some doom, and some of them even offering to the public in written form a full series of legislative recommendations.

In 1959 the National Planning Association, a private association of economic investigators, supported by contributions from business men, issued its first report forecasting the gross national product for 1962, 1965, and 1970.

(Slide)

I want to comment a moment on this. This is a loose-leaf affair kept up to date constantly by the Association. I hope you will become familiar with it in the Library, because I have to justify each year its cost. It is the most expensive item in the library--$150.

In 1959, then, they set up their predictions for 1962, 1965, and 1970.

Prediction: GNP (that's gross national product), total production of goods and services, is likely to rise from the present rate of about $450 billion (now a little over $500 billion) to more than $600 billion in 1965, and to approximately $800 billion in 1970.

So far they have been doing all right with their predictions. But look at the assumptions.

Assumptions: No major wars or major depressions. Projected increases in population and working force to be realized. Extended vacations; somewhat shorter work week; and an average rate of growth in production of 4.2 percent per year. This, by the way, we are not achieving.

These are really little more than statistical projections based on past and estimated growth rates. In other words, the worth of the Employment Act of 1946 and its machinery has not yet been tested by trial in time of emergency. But we are gathering much information about the past and the present, and it will undoubtedly be of great value in any further test.

I come now to my fifth and last problem. This is divided into two sections there on the board. There are two big articles in the Financial Section of the <u>New York Times</u> this morning on these very topics.

Our last problem for consideration is then the problem of foreign trade. I call it foreign trade, but it is as much concerned with foreign traders and with foreigners generally as it is with trade itself. It is perhaps our most important problem today.

It is concerned not only with imports and exports but with the exporting of American jobs to foreign plants which are American owned. It is concerned with foreign aid and with military assistance, and it is concerned (I want to emphasize this) with the mounting number of legitimate claims on the United States for dollars. These claims could easily, especially in the case of panic, be transferred into claims on our gold supply. (Incidentally, we will deal with these matters in two formal lectures and in at least one discussion period.)

In the old days, when American business men and American workers demanded protective tariffs as a defense against sweatshop imports, the standard reply was that American wages were higher because of modern mass-production methods, and that the American workers were in no sense competing with foreign products made by hand labor, however cheap the foreign workers' hourly rate of pay.

Such an argument is no longer valid. We saw on our foreign field trips last year, and you will see for yourselves in April, that European industry is as modern and as efficient as anything over here—and they have not raised the rates of wages accordingly. Wage increases, yes. But, to American levels, no. This, then, is perhaps our most important problem today and, since it is a problem, I do not have to offer a solution; but problem it is and a solution must be found.

(Slide)

I show you now a chart outlining changes in United States exports and imports. As a result of a considerable decrease in our exports in 1958 and 1959 (the heavy red line there) the United States put on a considerable campaign among business men to extend foreign trade, to increase our exports. And, as you will notice, in the last few months there has been some success. (There is a pretty good article on that in the New York Times this morning, too.)

Our exports are up and our imports are down. But, although the gap has lessened, it has not been overcome.

I am still concerned with foreign trade, but with a more formalized aspect. Early in the postwar period, the nations of the free world set up the General Agreement on Tariffs and Trade, more often referred to as G-A-T-T, or more simply as GATT. This original 17-member agreement now includes most nations of the free world. It takes the form of a treaty which lays down the main rules for international trade, has many methods to provide protection and many provisions for the elimination of abuses. It is, more particularly, an organization for periodically reviewing the terms of trade with the view to eliminating barriers to trade. Five or six postwar conferences, each many months long, have been held, during which time tariff rates have been much reduced. There is one going on now at Zurich. On the whole, G-A-T-T has worked rather well.

As early as 1921 Belgium and Luxembourg set up a customs union. After World War II The Netherlands became a member, and BENELUX gradually emerged as a single market.

One of the results of the Marshall Plan was the appearance in April of 1948 of the Organization for European Economic Cooperation, more often referred to as OEEC. It had 17 members, with Canada and the United States as associate members. Just now it is being remodeled into a new form and will be called the European Economic Cooperation and Development Organization, or OECD.

One of the things that the OEEC did was to set up the European Payments Union to facilitate international payments among the members of the Organization for European Economic Cooperation.

Further industrial and political developments in the postwar period resulted in the formation of the European Coal and Steel Community. This is a treaty of only six nations--of the original 17--Belgium, Luxembourg, The Netherlands, Italy, France, and Western Germany. It was set up in April 1951. There was a further development the next year when the Coal and Steel Community set up a governing body called The High Authority.

This same group of six political entities next set up the European

Common Market. This group is often referred to now as the Inner Six. Thus the Common Market came into being by treaty on 1 January 1958. It is a customs union, but it seems to disenfranchise the other members of the Organization for European Cooperation and also the other members of the General Agreement on Tariffs and Trade. There is much current conjecture on whether this customs union is merely that or whether it is not the first step to European supra-nationalism.

In addition to the Coal and Steel Community and the Economic Community, we now have a third, the Commission of the Atomic Energy Community, usually referred to as EURATOM.

(Slide)

You will note from this Vu-graph that the three communities have developed a Common Assembly, a Common Council of Ministers, and a Common Court of Justice. The movement toward supra-nationalism is apparently well under way.

What has happened to the other nations, the Outer Seven, as they call themselves, those of the original 17 which were left out? They have banded themselves together, too, into a commercial group which could hardly be called a customs union. As I said, they have been called the Outer Seven, but, thanks to the generosity of Mr. Khrushchev, Finland is now allowed to join up. So I guess they will be the Outer Eight. But, principally, the chief mission at the moment of the Outer Seven seems to be beating their way back into the Council of the Inner Six.

Educators always tell themselves that a successful talk requires three things: First, you tell your group what it is that you are going to tell them; second, you tell them; third, you tell them what it is that you told them.

Two of these requirements have been met. The chart gave you an idea of what I was going to say, and for 40 minutes, or perhaps 45, I have been saying it. Let me recapitulate very briefly.

First, we traced some of the developments in the science of economics as to writing and as to schools of thought.

Second, we made brief reference to the conduct of the Review of Economics as a section of the Foundations Unit.

Third, we continued with an outline of five current economic problems which need solution. They were:

1. How do you measure productivity and who is entitled to the results of increased productivity?
2. The effects of inflation and its relation, if any, to our full employment policy.
3. The cold war and its economic effects.
4. The need for economic forecasting and some statement of the difficulties of the process.
5. Problems of changing world trade patterns.

This concludes our work in this auditorium. Your next meeting will be in your assigned discussion rooms, as I said, the same ones you had in the Government Discussion Section, where the faculty moderator will review with you all of the administrative details of the Review of Economics.

Thank you.