

How Not to Tinker With the Economy

"The relation between demand and supply can be stabilized by reducing demand, or by increasing supply. The latter is certainly a more typical American solution than the defeatist policy of reducing demand through depression and unemployment."

by JOHN F. WHARTON

My father was a visionary, but with limitations. He might have believed a prediction that his son would see a man step on the moon, but, being a staunch Republican, he would never, never, never have believed a prediction that a Republican administration would deliberately try to lower the American standard of living. Yet that is exactly what is happening. Of course, the politicians do not talk about it in such terms. They use phrases such as "cooling the economy" to "control inflation," meaning that they intend to reduce the cost of goods and services in terms of dollars. This would be fine if their policies had no other effects. But there *are* other effects, which will prove disastrous.

By adopting restrictive money policies, the government hopes to cut down business activity, stop business expansion, and create unemployment, even to the extent of a "mild depression." It is *hoped* that this will so reduce the demands of consumers that the producers will have to reduce prices. What is *certain* is this: Cutting the production of goods and services at a time when the number of people needing such goods and services is rapidly increasing will mean there is less and less to go 'round. Hence, the over-all standard of living *must* fall. The very rich will feel it very little;

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they can bid for anything they want. The poor will feel it the most. The rest of us will suffer in varying degrees. But the over-all result is certain: If a country is producing a certain quantity of goods to supply a certain quantity of people, and you cut the supply but increase the number of people, then there will be fewer goods per person available.

I am quite sure that very few Americans realize this, because very few Americans think in terms of economic realities. Here is a simple illustration of a monetary proposition: If the dollar cost of goods is reduced by 20 per cent but the reduction is achieved by reducing your dollar income by 40 per cent, are you better or worse off? Most of us can figure that one out very quickly, but how many think to apply it? There is an even simpler proposition which is constantly disregarded: The true wealth of a country consists of the goods and services available to the citizens; money is the equivalent of wealth only when it can buy such goods and services.

However, if you ask someone to define a "prosperous man," he will usually state it in terms of money—so many dollars of income and so many dollars of capital. Such a definition is only true if the dollars will enable the man to procure the goods and services needed to make him *truly* prosperous. This means food, clothing, housing, medical care, educational facilities, protection from fire and crime, plus a reasonable amount of what people call "luxuries." Usually, money can procure all these, but not *always*. Doesn't

anyone remember World War II when money could not buy you a new Cadillac (they weren't being made)? My wife broke her foot while in Moscow; had I been Aristotle Onassis I couldn't have bought her a wheel chair; there was no such thing for sale. (Fortunately, the American Embassy loaned us one.) Money, therefore, is only one factor in economic problems. The current high priests of economics talk as if it were the *only* one.

The so-called inflation (it should be called "rising prices in terms of dollars") that has been going on in this country for the past fifteen to twenty years is *not* a money inflation in the classic sense. Mr. Johnson's recklessly unbalanced budgets did make the monetary factor a vastly important one, but there are two other even more important factors that go back much further in time. The first of these is the historic success by many groups of workers in raising their standard of living, usually through unionization. All kinds of workers—from truck drivers to teachers, from trained nurses to garbage collectors—began in the late 1930s to demand and get higher wages and salaries that enabled them, *in those days*, to obtain more true wealth. However, when these increases were not offset by labor-saving machinery and other forms of increased productivity, they added to the cost of production and distribution. The producers accordingly raised prices, and the service industries raised their charges.

It is not difficult to understand the reason for the demands of many of

these groups. It always amazed me that our society took for granted a "working class" that would perform arduous tasks—such as nursing the mentally sick, or teaching large classes of ill-behaved children, or driving heavy trucks for long stretches—and be satisfied with a comparatively low standard of living. But, nonetheless, wage and salary increases, like mark-ups, do add to the dollar price of the goods and services. Just *tinkering with the money system* won't cure it. It can, however, touch off a real depression.

The second factor that has upset the whole economy is the sudden, startling growth in the population. This has created an enormous, steadily increasing demand for goods and services. In our free enterprise economy this naturally resulted in a seller's market, and the sellers found to their delight that there were plenty of people who could earn, obtain credit for, or take from capital, the dollars necessary to pay the increased dollar prices. All of which led many people to seize on a phrase such as "the affluent society," deluding themselves into thinking we were *all* doing fine. We weren't, we aren't, and, if the current policies are carried through, things are going to get worse.

Fifteen or twenty years ago it be-

came apparent that a population explosion was coming. A few wise statesmen saw the signs and were troubled. The late Adlai Stevenson was one; I remember discussing it with him in the middle 1950s. He went right to the heart of the matter with comments such as: "We have to start thinking now about how we are going to feed and house all these people. Consider the feeding problem when ten to twenty thousand new mouths come into our economy *every week*! How are we going to house them; will we build dreary anthills like the apartments one sees in Moscow? Can our utilities supply the extra power that will be needed? Going further, what about the schools and hospitals—and the teachers, the doctors, nurses?"

Mr. Stevenson was talking economic realities. He realized that the growing generations would require what we might call "currently necessary goods and services"—food, houses, clothing, education, medical care, protection from violence—all of which necessitate more factories, power plants, and training centers necessary to increase this production. (For brevity's sake, I will use the initials CNG&S to stand for the foregoing.) And the big questions centered on the problem of how those requirements could be met.

I did not worry then too much about

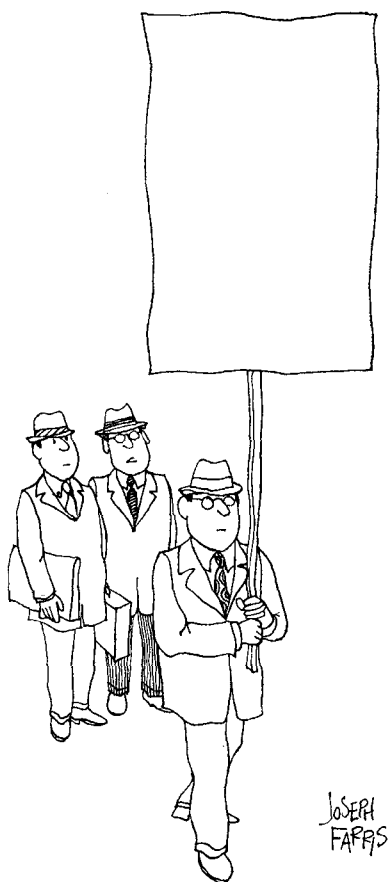
those questions because I believed the saying of a famous economist: A brain and two hands come into the world with every mouth; put those brains and hands to work turning out CNG&S and they will support themselves. What never occurred to me was the possibility that these brains and hands would *not* be given that sort of work. But that is what is happening.

President Eisenhower's administration began building a military-industrial complex that grew so rapidly that its horrified creator took pains, in his farewell address, to warn us against it. The warning went unheeded. Manpower was *not* being poured into work that would result in CNG&S. Manpower was used to build, not schools, hospitals, or clothing factories, but plants for the production of non-consumer goods—bombs, planes, poison gas, germs for war use. Manpower was diverted in large quantities for military purposes, which meant not only soldiers but people to turn out innumerable reams of paper work. As the Vietnam war has escalated, more and more manpower has been diverted, and this process will continue as long as the conflict lasts.

It is said, of course, that all this is necessary for national security. However, if I may digress briefly, it does not seem to have given us much security; in all my seventy-five years I have never seen such fear of foreign enemies. The truth is that the pursuit of security in today's world calls for more imaginative approaches than the narrow military ones. A world government sounds far-fetched only to those who do not comprehend the implications of total power in an age without effective boundaries.

Meanwhile, I am certainly not opposed to a reasonable percentage of manpower being allocated to our security requirements, for what little value it may have. And whether the current percentage is or is not reasonable, the fact remains that the present program means that the demand for CNG&S increases while the supply does not. And this brings about another problem. Since many workers in the military-industrial complex are well paid, they can outbid the teachers, doctors, nurses, firemen, and policemen for anything in short supply. No wonder prices rise.

Until the current policies went into effect, we struggled with these problems chiefly in two ways: 1) we encouraged the expansion of facilities that supply CNG&S, and also of plants that furnish the power needed to keep such facilities going; 2) we began, without realizing it, to accept a lower standard of living in many ways. We concealed this by talking about an af-



"Chap from the silent majority."

fluent society and worrying whether labor-saving machinery, if called automation, would leave no work to be done—when the economy was desperately in need of manpower for all the service industries.

Affluent we were not. If protection from crime is an essential element in prosperity, we were and are not even prosperous; even the rich cannot prevent their wives and daughters from being raped, kidnapped, and murdered in their own houses. Take an honest look at economic realities and what do you find? There may be a few places where the standard of living has risen, but certainly the declines outnumber the advances. Rooms get smaller, ceilings lower, and walls thinner; the dreary anthills of Moscow begin to look not so different. In "luxury apartments," we sometimes find one outside door, so that a distinguished guest coming in may meet the garbage coming out. More and more people are buying automobiles, but the manufacturers are continually recalling them to repair discovered defects; how many undiscovered defects are there? Educational facilities are overtaxed. So are medical. If you need an operation, unless it is critical, you may wait months before a room is available; your doctor may order private nurses for you, but you discover none is available. Repairs of any kind take longer and longer. Examples are endless.

If, on top of all this, the government's policy halts industrial expansion, building is slowed down, and no new training facilities are established, things will clearly get worse. And the next desperate remedy—wage and price controls—won't help; they will not increase the supply of CNG&S. On the contrary, they may restrict the supply still further.

Make no mistake about it. The present plan and the economic arguments that are advanced to support it say clearly and unequivocally that corporate profits must be cut, which means that wages and salaries and dividends will be lowered, and that more people will suffer the indignity of unemployment—all of which will produce a reduction in demand. *Reducing demand means reducing your standard of living.* If you want a four-bedroom house, be satisfied with a three- or even two-bedroom dwelling; if you are accustomed to a diet that includes beef every day, include beef only once a week. And so on, and so on.

In the nineteenth century, when the working classes were comparatively powerless, high interest rates and reduced business profits could reduce demand and force the workers to take lower wages. The result could be a reduction of prices in terms of money.



But can anyone believe, today, that 9 per cent money will cause sanitation workers readily to accept a cut in wages that forces a lower standard of living on them?

I have not mentioned the one government policy that has some merit—the announced determination to balance the federal budget. For a fantastically unbalanced budget superimposed on a stagnant production system can produce a monetary inflation concomitant with a depression—as the Germans discovered in the 1920s and Americans would do well to remember today. But even here we find the same underlying attack on prosperity. Federal expenditures that might benefit the civilian are being cut much more sharply than military-industrial expenditures. There is no plan to stimulate CNG&S.

But is there any possible alternate policy? Of course, there is. The relation between demand and supply can be stabilized by reducing demand, or by increasing supply. The latter presents just as many problems as the former, but if there are to be any constructive answers to Adlai Stevenson's questions, this is the *only* policy that will supply them. It deals with economic realities, not merely monetary factors. It is certainly a more typical American solution than the defeatist policy of reducing demand through depression and unemployment.

The opposing theories can be stated briefly. The anti-prosperity drive is trying to handle the money problem; if this requires us to reduce our standard of living, that's just too bad. If we don't like it, we can go and lump it. The prosperity advocates want to *increase* our standard of living by an enormous expansion of the supply of CNG&S and find a solution to the money problem that fits such increase. This means that

we must adjust monetary policy to the needs of the population, and not subject the population to the tyranny of money policies. Many of the old guard will cry out that this can't be done.

It *can* be done, if enough Americans want to do it. I have often despaired over the things our citizens have selected as the things they don't want to do. I have never despaired over the ability of Americans to meet any challenge when they made up their minds to do it.

I lived through the days in the 1930s when our production system was stagnant. I saw it put back to work with such vigor that it supplied both guns and butter during a bitter war—a war as difficult as the war against poverty that so many politicians *talk about*. While in Washington during the Second World War, I was delighted to see how seldom our war workers said, "It can't be done"; how often we said only, "How do we do it?"

I can still recall vividly the night I sat in my hotel lobby and heard a presidential address on the radio. The situation was critical. England desperately needed certain war matériel; the war might be lost without it. We had shipped it in a convoy, but the grim question remained whether the ships would get through the German submarine wolf packs. In all reality, the odds were against it; perhaps they should have turned back. But the President concluded with three short sentences about the ships. I can still hear his voice: "They *must* get through. They *can* get through. They *will* get through."

They *did* get through. We won that war. We can win the war against poverty. But not by turning back to depression and destroying prosperity.

The Silenced Majority

by CHARLES FRANKEL

What is the place of majority opinion in a democracy? What is the President's obligation to public opinion? These are questions that go to the heart of the democratic process. They ask us to look beneath rhetoric to the complex realities. And President Nixon has implicitly raised them by appealing to a "silent majority" that, he claims, supports the course he is taking in Vietnam. Even if Mr. Nixon is right that this majority is behind him, I am not persuaded that, as a matter of principle, he has employed the right criterion for justifying his position.

Majority opinion is a curious and elusive thing. As the polls teach us, as the ebb and flow of public reaction on Vietnam suggest, people's opinions on a public issue depend very much on how the issue is posed to them, and on the circumstances in which they are asked to express themselves. A minority today may well be a majority tomorrow, depending on what transpires between today and tomorrow. Moreover, majority opinion on a particular issue may not in fact express opinion on *that* specific issue. It may express

a general party loyalty; it may express the individual's sense that he should go along with a coalition of interests with which he is broadly sympathetic even if he disagrees with the particular policy at issue; it may reflect simply his judgment that he does not know enough to have a reliable opinion on the specific question he has been asked, and his decision, therefore, to accept the opinion of people in authority.

Thus, it may be the case—although no one knows—that a majority of Americans are on President Nixon's side with regard to his policy in Vietnam. But it is hard to say what this proves. Simply out of loyalty to their President, many Americans would no doubt support Mr. Nixon if he followed a course diametrically opposed to his present one. A President, by posing issues in one way or another, makes and unmakes majorities. His deepest obligation is not to the majorities that come together and fall apart in this way. It is to a different and more important kind of majority.

The bet is a good one that most people in the United States, though they disagree on many things, nevertheless want to go on disagreeing within a

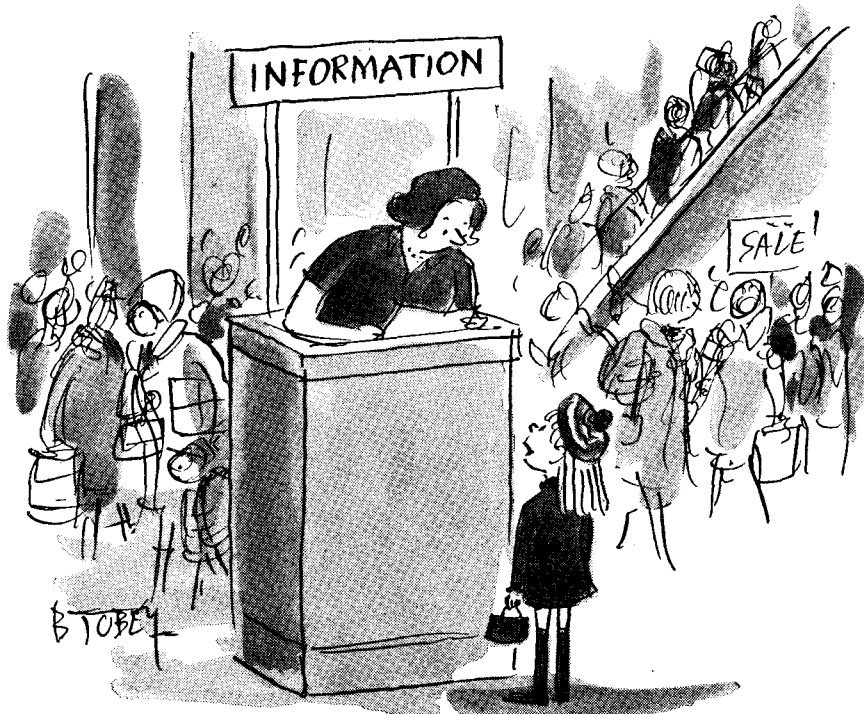
framework of toleration and mutual respect. The country has had, in many respects, a harsh history. But when it has worked, despite its heterogeneity and tendencies to violence, it has worked because a sufficient number of people have wanted to play by these rules. The primary obligation of the President of a constitutional democracy is to maintain the conditions that keep such people numerous and strong and in a position to moderate the public contest. He does not have to follow their opinions on each and every issue; in fact, they will probably have conflicting opinions on many issues. But he has to ask what the impact of his policies is on the situation of people who want to make the electoral process function, and who want to keep the country together as a political community.

From this point of view, if no other, the indefinite continuation of the war in Vietnam is bad public policy. Some of the people who belong to this majority reasserted themselves in the moving demonstration in Washington in November. For a moment, civilization snapped back. The attention of the nation was caught by a display of civility and self-discipline rather than violence and abusiveness. But the majority to which such people belong remains in danger of being silenced.

Two successive administrations have carried this process far down the road. Twice in the last five years the overriding issue in Presidential elections has been Vietnam, and twice a majority has spoken through the ballot and has voted against the candidate most closely identified, by his words or his history, with a policy of deep or indefinite involvement there. Admittedly, it is difficult to read a single meaning into the results of any national election. But it would take a hardy man to say that the American electorate showed indifference to the problem of Vietnam in either of these elections, or that they expressed approval of the policies that continue to keep us mortgaged, for a dateless future, to the Thieu-Ky regime. Yet, the elected administrations of the United States have behaved, with regard to Vietnam, as though these elections hadn't happened.

This is to undermine those—surely the majority—who want to believe in elections, and who do not want to see the country split into warring camps. It is to leave them helpless and, in effect, silenced, caught between a government that does not seem to take elections seriously and a vocal minority eager to condemn "the system" as a fraud. A government cannot follow the majority on every issue, but nei-

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"Did a smartly dressed youngish woman rush past here frantically shouting 'Linda, Linda'?"