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AMERICA AND THE WORLD, 1946-71, IN THE PERSPECTIVE OF 1914-39†

The past quarter century has been an extraordinary period in human history, marked by magnificent achievements and gains of many kinds, yet marred by a buildup of unsolved problems, recurrent crises, and eventually a degree of demoralization which has seemed to threaten a setback to social progress. With no pretense to authoritativeness, I venture to offer some observations on this recent period, in the light of my interpretation of the up-and-down experience in the quarter century 1914-39. A summary of the positive gains since 1946 may well precede a sober review of the recent drift toward some kind of breakdown.

GAINS AND ACHIEVEMENTS

World War II was a truly terrible experience, in all sorts of ways that need not be recounted here. But it included such outstanding successes as Britain's courageous struggle against great odds, America's notable record in production, and definitive victories over Mussolini, Hitler, and the Japanese militarists.

In the hectic period before and after the end of hostilities in April-August 1945, the victorious powers encountered the gravest difficulties in reaching agreement on all sorts of major and minor points.¹ No general peace conference was assembled and no hasty treaties of peace were formulated and imposed, as in 1919. The protracted process of peacemaking, however, was full of costly delays and blunders.² To render Germany incapable of fresh armed aggression, and to aid her worst victim to recover, extensive reparations in kind were clumsily exacted, mostly from Germany by and for the Soviet Union. Yet there were many noteworthy achievements in respect to international organizations, reparations, war debts, and aid in economic recovery.

Before hostilities ended, the moribund League of Nations was replaced by the United Nations—again with exaggerated hopes. The United States was a full member from the start and accepted a positive role in world affairs, in sharp contrast to her reversion to official isolation in 1920. The postwar International

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† More than a score of friends of various professions kindly read a draft of this paper and made helpful comments and suggestions, but the responsibility for the present version is the author's alone. It grew out of a protracted study of the interwar decades, the principal fruit of which is expected to be published by the Johns Hopkins Press.

Monetary Fund, the International Bank for Reconstruction and Development, the World Health Organization, and other bodies had no previous counterparts or significant forerunners; but the proposed International Trade Organization failed of adoption. No long-term commitments for monetary reparations were demanded or made. Lend-lease operations, which had played a large part in winning the war, were abruptly terminated; but the obligations to the United States were largely written off, and the balances were not required to be settled promptly; only in October 1972 were negotiations with Soviet Russia over its huge balance pressed to a conclusion. Unpaid balances of World War I debts remain all but ignored on the books of the United States Treasury.

Deep disagreements within the American Government over postwar policy toward Germany were partially resolved by Secretary of State Byrnes's major addresses at Stuttgart and Paris on September 6 and October 3, 1946.³ Under his former deputy in the Office of War Management, General Lucius B. Clay, and John J. McCloy, who were in turn military and civilian governors of the American Occupation Zone, the Germans were helped "to win their way back to an honorable place among the free and peace-loving nations of the world."⁴ Under General Douglas MacArthur, commanding American Forces in Japan, a similar policy was pursued in that country, where Hirohito was allowed to remain Emperor. The Marshall Plan, proposed by Secretary of State Marshall at Harvard on June 5, 1947, was rejected by Soviet Russia for herself and her satellites, but soon implemented for other countries in the Economic Recovery Program. The United States provided many billions of dollars for rebuilding the German and Japanese economies and, through direct and Marshall Plan loans and grants, to reconstruction in Great Britain, France, and other allied and neutral countries. Steps toward European economic integration were taken with American sympathy and support. Broadly successful, these moves went far to account for notable economic progress in Western Europe and Japan since the war ended, and effective postwar restraints on German and Japanese arms build-ups contributed much.

Aid to poorer, "developing" countries has been extended by the United States and many other nations, unilaterally and through United Nations agencies, on a scale that often seemed liberal to the donor but niggardly to recipient countries; but the results have been mixed, and our foreign-aid program has continued highly controversial.⁵

Science and technology have made striking advances with vast potentials for good and for ill, most conspicuously in the development of atomic or nuclear energy. Though strenuous efforts to bring about effective international control of their worst potentials have had only limited success, a holocaust due to an explosive clash between the two superpowers with huge stocks of these weapons has thus far been avoided—at least once (October 1962) by a narrow margin.

Under the stimulus of competition between the United States and the USSR, space explorations have mostly been spectacularly successful, and have had important technological byproducts. Striking advances have been made in communications, with the aid of satellites and computers. Air transport, which was in its primitive stage in World War I and developed remarkably in the interwar period, continued to make great advances during and after World War II. Charles

Lindbergh's magnificent feat of flying his monoplane alone from New York to Paris in May 1927 had its lesser counterpart in Elgen Long's solo polar circumnavigation of the globe late in 1971. Atomic energy has come to play an increasing role in producing electric power and in other fields. The fast-breeder reactor, which produces its own fuel and a surplus, appears to hold high promise. Ways of expanding limited uses of well-nigh unlimited solar energy are being patiently sought.

Health gains have been enormous, however great the scope for further progress. Infectious diseases, tuberculosis, smallpox, malaria, and poliomyelitis have been all but conquered. Progress has been made in dealing with nutritional-deficiency diseases still prevalent in poorer nations, with cardiovascular diseases despite their increasing prevalence, and with cancers and their early detection. Motor-vehicle accidents still take an appalling toll, among young persons especially, but rates per mile traveled keep declining.

If no "single, generally acceptable index of welfare" or the level of living of a people can yet be constructed, there are useful partial indicators. Infant- and maternal-mortality rates show gratifying downtrends. Average life expectancy at birth (in this country over 70 years in 1970) keeps trending upward, even in poor nations where high birth rates commonly persist after death rates have been markedly reduced. Several famine threats have been met with relatively small death tolls, thanks largely to heavy American relief shipments of grains. In the United States per capita consumption expenditures (in 1958 prices) had recovered to the 1929 level by 1939, and by 1969 were more than twice as high.⁶

Social-security measures of various kinds, private and public, have alleviated burdens of unemployment, old age, and poverty in many countries. Alarmist fears of widespread famines in the 1970s are being countered by revolutionary developments in plant breeding and farming practices (recently termed the "Green Revolution"), and new high records in food and feed production have been registered in advanced and poorer countries. While discrimination against minority groups persists, clear progress in reducing it has been registered, and their consumption levels have generally improved. From 1947 to 1969, the median annual income of American nonwhite families and unrelated individuals, in 1970 prices, much more than doubled, and the percentage with incomes under \$3,000 shrank from 53.6 to 18.9.⁷

The investing public has grown enormously, and its appetite for common stocks is reflected in the fact that the dividend yield on dividend-paying common stocks (N.Y. Stock Exchange) averaged little above 3 per cent in 1971, and fell below this figure in 1972.⁸ The stock exchanges, and "glamor" stocks and "high flyers" in particular, have gone through several booms and busts;⁹ stocks prices continue to fluctuate over a wide range; serious snarls in recent years have led to recommendations (e.g., in William McChesney Martin's August 1971 report) for a drastic reorganization of the whole system; but the superbloom and its collapse in the interwar years have not been repeated. International trade has greatly expanded as various steps were taken, largely on American initiatives, to reduce its throttling by tariffs and other protectionist devices.¹⁰

Such unquestionable progress had generated a high degree of optimism by the mid-1960s, reminiscent of the superoptimism of the late 1920s. There is, how-

ever, a darker side to the picture, and a number of hard facts must be resolutely faced.

HARD FACTS

Robbins was perceptive when he wrote in 1934 that the Nazi revolution had dispelled the cherished illusion that¹¹

the growing diplomatic tensions in Europe and elsewhere . . . were minor difficulties which patience and goodwill could eliminate. . . . We now know that, for a time at any rate, we have to live out our lives side by side with men whose conceptions of the true ends of life are fundamentally different from our own—men to whom the kindly virtues of peace are contemptible and for whom the destruction of life is a better thing than its preservation. . . .

The dreaded World War II started five years later, and lasted for six. Since its end we have lived in an increasingly complex, ever changing, turbulent, and dangerous world.

The Roosevelt-Hull "Grand Design" for a peaceful postwar world was based on the assumption of close, friendly cooperation between the United States and the USSR, and accounted for many fateful decisions in 1944-46. When bitter experience with Stalin and his men proved this assumption false, these decisions became the source of major problems not yet solved and of festering sores not yet healed.¹²

The relative strengths of the major powers have changed greatly. Particularly noteworthy are the rise of the Soviet Union and the People's Republic of China, the disintegration of the British Empire and Commonwealth, the upsurges of France, West Germany, and Japan, and the relative shrinkage of the United States. Despite extraordinary advances in transportation and communication, and a trend toward increasing interdependence of nations, our once-vaunted "One World" is plagued with many types of "divisiveness." We have no absolute assurance against world catastrophe as frictions persist, as some other countries sense a threat in our huge stocks of terrible weapons, as the Soviet Union has vastly enlarged its capabilities of many kinds, as the People's Republic of China has made strides toward acquiring nuclear destructive power, and as assassinations and lesser acts of violence keep occurring. There is also a lurking danger that possession of superior armed might, and fear of its use on prospective victims, could lead to expanding domination by a superpower without resort to war, as Hitler's Reich did in the late 1930s.

Inherently difficult to understand with any approach to accuracy and completeness, our world is imperfectly understood by those who study it laboriously, and by those who have business and political decisions to make and actions to take.¹³ Under the circumstances it is remarkable that so much genuine progress could be made in the postwar decades, and not at all surprising that misjudgments, multifarious mistakes, and major blunders have been made.

With much patient diplomacy and clear recognition of the costs and tragedies of "hot" warfare, several years of "cold war" were endured. Berlin, an enclave within East Germany, was the scene of repeated crises, and Jessup recently concluded: "Even with a new agreement on the Four-Power status of Berlin and

later ratification of Germany's treaties with the Soviet Union and Poland, Berlin . . . will remain the sore thumb of Western Europe."¹⁴ The Soviet Union used its armed power to suppress liberal moves in Hungary and Czechoslovakia. Moreover, serious internal and international strife has repeatedly erupted in China, Korea, what used to be British India, the Caribbean, Southeast Asia, the Middle East, several parts of Africa, recently in Pakistan and Northern Ireland, and in the two-weeks' India-Pakistan war. Millions of persons displaced after World War II were not all resettled before they were added to. The process has continued through 1971, and refugee camps are sore spots in several areas today. Deep-seated fears and prejudices, assiduously cultivated, stubbornly stymie most efforts to bring about reasonable and durable PEACE. International collaboration, through the United Nations and otherwise, has won some victories and alleviated some disasters, but proved impotent to prevent or cure others, and instances of deliberate international troublemaking continue to occur.

While several countries have succeeded in holding unemployment to low or moderate levels, and a few have experienced labor shortages, one who seems to be in a good position to judge recently wrote: "There is a serious and growing unemployment problem in countries from one end of the developing world to the other,"¹⁵ with explosive potentials ill-recognized.

Income disparities within and among nations not only persist but seem inexorably to widen, and poverty continues to flourish in the midst of affluence. "The Gap between the Rich and the Poor Nations" was the subject of an International Economic Association conference in the late summer of 1970. Writing on "The Gap: Concept, Measurement, Trends," Simon Kuznets found "compelling" the evidence of a "widening gap in per capita product" between the developed and the narrowly defined "poor" less developed countries, both in the past century and since the end of World War II. Some highly respected authorities believe it imperative to narrow the enlarging gap between what are loosely termed "standards of living" in the advanced and poorer nations.¹⁶ For this truly herculean task we are ill-prepared by the extremely imperfect state of genuine knowledge and fundamental thinking, as well as by absorption in other urgent matters, and we are likely to live with this problem for a further period.¹⁷

Human beings are a most heterogeneous lot. For good and for ill, people vary through a wide range in respect to color, creed, intelligence, specific aptitudes, interests, education, ambition, greed, judgment, morality (however conceived), spirit, gullibility, resourcefulness, responsibility, considerateness, generosity, and other characteristics. It is far too easy to generalize and rely on rough averages; but certainly many are prone to cultivate prejudices, aversions, and even hatreds, to fret, complain, rant, and exhibit the adult equivalent of childish tantrums, to cherish excessive expectations and illusions, to indulge in complacency or wishful thinking, to talk too much and too loosely or too little and too late, to resist facing hard facts and put off making painful decisions. Our blindness is only in part inherent; in part it results from deliberately wearing blinders, and from long practice in turning a blind eye and a deaf ear to what one does not want to see and hear. It is no wonder that, at all levels, people find it hard to get along smoothly together, that tensions build up, and that our individual and collective capacity for blundering misjudgments continues impressive. And we tend to swing vio-

lently from one leader or policy to another, as revulsions mount against those that have become unpopular. These are fundamental facts of major causal significance.

The bad spirit that was heavily responsible for blunders at Paris and Versailles characterized most of the interwar period (except for a bright interlude of goodwill in 1924–29), hampering or even stifling rational cooperation within and among nations. We have not emerged from such dangers. We cannot safely assume that people and their leaders will act reasonably, intelligently, in good spirit, and with sound judgment. On the contrary, we must expect that emotional and political influences will often play hob with domestic and international situations. The enormous spread of radio and television has informed more people than ever before, but usually only superficially, and has also promoted confusion, misjudgments, and various forms of arrogance.

Furthermore, no nation has yet evolved a governmental system that works really well. Democratic, fascist, and communist governments show specific strengths and weaknesses, and all keep experimenting in efforts to improve their imperfect records. Political instability seems a permanent feature of the democracies, overturns recur in most of the authoritarian nations, and the long stability under dictators in Portugal and Spain has inspired little emulation.

Big men are usually complex personalities, hard to get along with, who tend to overestimate their large capabilities. They can and do make constructive and destructive moves of major importance, but also big mistakes, even crucial blunders from which extrication is difficult. Small men in high positions make some wise decisions as well as many foolish ones. Relatively few persons are wholly or predominantly evil or stupid, but all are liable to commit errors of commission and omission. All too commonly, we expect too much of even our ablest men and best institutions, and tend to be unduly harsh in excoriating them when they fall short of excessive expectations. These truths are abundantly illustrated in ancient, medieval, and modern history down through our own times; it is unnecessary to name names.

Scandals in high places continue to erupt even in advanced nations, including our own. The postwar period has been full of instances of malfeasance in business and banking; and the rise of individual bankruptcies here, to a high level in 1965–70,¹⁸ reflects much imprudent use of increasingly available personal credit and probably also a decline in personal standards. The ingenuity of Americans in devising new forms of crookedness was amply illustrated in the affluent 1960s. Increased prevalence of insecurity of person and property constitutes a significant negative component of our unprecedentedly high level of living. Crime statistics, imperfect though they still are, show unmistakable uptrends in recent prosperous years.¹⁹ Felonies and lesser crimes are incessantly combatted, with no prospect of significant reduction. Many jails and prisons are overcrowded, courts are clogged, and injustices abound. Despite important contributions by dedicated individuals and local groups, most prisons fail to rehabilitate their inmates and even foster criminality. Presidential commissions have investigated, but their recommendations have been largely ignored.

In the face of such facts, there has been a truly ominous trend, ever since

1929, toward expanding the role of governments in economic and social affairs. This has been evident all over the world, whatever the form of government. Here it began under President Hoover in 1929, and was accelerated under the New Deal. It has continued at a rapid pace since the end of World War II, under Democratic and Republican administrations alike, in a nation that has taken great pride in its free-enterprise system. We have laid on the President a multiplicity of tasks that he cannot be expected to perform effectively, despite many steps taken to improve the efficiency of the Executive. Moreover, our governmental processes are ill-suited to solving problems that keep arising. Instead, these tend to be dealt with piecemeal or allowed to build up to critical dimensions. And the more deeply the government is involved in the working of the economic system, the more political pressures and expediency figure in reaching so-called economic decisions.

Salter wrote in 1932 that "the complexity of the essential tasks of Government under modern conditions strains to the utmost the limited resources of man's regulative wisdom, competence, and public honesty; there is no margin to spare."²⁰ This is still profoundly true. One need not be nostalgic for a return to the Coolidge philosophy to conclude that we have swung dangerously far from discredited *laissez-faire*. Yet thus far the trend has seemed politically irresistible.

Success still tends to breed overconfidence, even recklessness, as it conspicuously did in the 1920s. The prolonged postwar period of dollar scarcity outside the United States not only promoted appropriate large-scale American liberality, but also encouraged commitments that became burdensome as our dollar surpluses shrank drastically in the later 1960s. Having succeeded in helping other nations rebuild their economies, we now face strong foreign competition. The success of radically new policies in stimulating growth in the first half of the decade, with continuing budget deficits, encouraged the notion that severe depressions are "extinct." As in the 1920s, a long period of prosperity not only generated multifarious maladjustments, malfeasances, and vulnerabilities, but encouraged undue confidence in the forward momentum to correct or submerge these.

There has been a disposition to believe that we shall never repeat the "incredible ineptitude" of policy that was glaringly displayed in the interwar period. Despite high-quality leadership, the Federal Reserve System is credibly charged with several errors of judgment in recent years. A flagrant example of governmental ineptitude, in which key figures were intelligent, dedicated high officials in two administrations, led to the humiliating Bay of Pigs fiasco of April 17-19, 1961.²¹ In the next four years others led to the crucial mid-1965 decision greatly to expand our military and economic commitments in Southeast Asia, the far-reaching consequences of which were most inadequately appraised. Great though our national capacity unquestionably is, we tend to forget that it is not unlimited. A new "war against poverty" was inaugurated with the passage of the Economic Opportunity Act of 1964.²² Other elements of a "Great Society" program were enacted while the nation was heavily involved in large-scale military operations and costly space exploration, with urgent problems of personal transportation, urban blight, and pollution calling for large public outlays. The final tests of our

policies with respect to Vietnam, the Soviet Union, and China, and of our social and economic policies in the 1960s, are yet to come; but obviously we cannot be sure to make wise decisions on major and minor issues in the 1970s.

BUILDUP OF PROBLEMS

In the interwar period several difficult problems were allowed to persist without adequate attempts at solution. German bitterness over "the war-guilt clause" (Art. 231) of the Versailles Treaty; the French urgent craving for security against future German aggression; wide disparities between American and European views over reparations and war debts; worrisome "maldistribution" of gold reserves; international currency disorganization; the threatening rise of Hitler in Germany: these were a few. In the 1960s there were different counterparts of these, international and domestic.

Among the international problems were the continuing impasse on many points between the United States and the USSR; the breakup of China in 1949 into the mainland and Taiwan and the partial alienation of the world's most populous nation, the communist People's Republic of China; persistent friction in the Middle East between Arab countries and Israel which erupted into war in 1948, 1956, and 1967; military involvement of the United States in Korea in 1950, and later progressively in Vietnam; deep-rooted tensions between India and Pakistan since the 1947 partition; the weakening of the United Nations, with a few important nations excluded and many small ones admitted; continuance of vexatious international monetary disorder, despite the older Bank for International Settlements (1930) and the newer International Monetary Fund (1944); and chronic inflation, in greatly differing degrees and at variable paces, since before World War II.²³

In much of the interwar period, inflation was feared as a major evil, and a substantial amount of unemployment was deemed tolerable. In the recent post-war period, by contrast, deflation and unemployment above some low percentage of the labor force have seemed far more objectionable, if not virtually intolerable. The Council of Economic Advisers rightly observed in its 1971 annual report: "The unemployment-inflation dilemma . . . has been one of the central concerns of economics and economic policy throughout this generation."²⁴

Most individual nations faced, and to some extent dealt with or left unsolved, their own series of difficult problems. I shall not try to summarize these, but must briefly touch upon several of those in the United States.

Here commodity-price inflation has at times been rapid, at others considerable, and at still others slow. The official wholesale-price index (WPI) was even more stable in 1958-64 than in 1923-29;²⁵ but the consumer price index (CPI) and several gross national product (GNP) "implicit price deflators" rose persistently during these years, as the CPI had not done in the 1920s.²⁶ So long as the CPI rose no more than 2 or 3 percent a year, as in the early 1960s, such "creeping inflation" was taken lightly, explained partly by defects in the index, or considered easier to bear than the consequences of efforts to hold price advances within narrower limits.²⁷

For well over a decade respected economists Arthur F. Burns, Gottfried Haberler, and others have pointed out the dangers of price inflation, preached

the virtues of "Prosperity Without Inflation,"²⁸ and ably discussed ways of attaining this vital policy objective, but with little effect. In particular, here and abroad, it has seemed politically impossible to curb the growing power of labor unions or to persuade them to moderate their inflationary demands, which have powerfully contributed to "wage-push" inflation;²⁹ and successive increases in minimum-wage rates, under union pressure, have been "irresponsibly inflationary."³⁰ Expectations that inflation will continue have done much to perpetuate the spiral.

Haberler stressed in mid-1960 that chronic inflation could everywhere be "avoided without creating prolonged and serious lapses from full employment and without endangering economic growth," and that it is "always due to faulty monetary, fiscal, and wage policies" such as excessive government spending, insufficient taxation, lack of monetary discipline, and uncurbed pressure from labor unions.³¹ Inflation was kept at bay for a few years by courageous anti-inflationary policies of the Eisenhower Administration and relatively cautious policies of the Kennedy Administration in 1961-64.³² Contrary to Haberler's hopes, however, much experience here and overseas has repeatedly shown that it is too much to expect leading countries consistently to pursue "correct" policies, and that giving top priority to avoiding major depressions or high unemployment can promote inflation, another economic curse. In practice it is extremely difficult to steer a safe course between Scylla and Charybdis, and to preserve a normal balance in objectives and actions.

Various moves to mitigate adverse impacts of price inflation, through such devices as cost-of-living adjustments in labor-union contracts and pension systems, have weakened the will to check the drift, and the far-reaching consequences of such inflation have been insufficiently appreciated. After mid-1965, with the great buildup of "defense" expenditures, price inflation gained momentum.³³ Its extent was underestimated, even prestigious "political economists" found no way "to prevent inflation in a prosperous economy," and political obstacles and limited public understanding hampered them in putting to use what they thought they knew.³⁴

Inflation was at full tide when the Nixon Administration took over early in 1969. It courageously attacked this problem among others, but found the results so disappointing that in mid-August 1971 it shifted abruptly to a "new economic policy." This included a 90-day freeze of most prices and wage rates (to be followed by a second phase of systematic controls), the suspension of redemption of dollar claims in gold, and the imposition of a 10 percent surtax on imports (removed 18 weeks later).

In the 1920s other aspects of inflation were of greater importance in the United States than commodity-price inflation, notably expansion of bank and consumer credit, and inflated prices of real estate and common stocks. In the past quarter century, extraordinary expansion of many forms of credit has gone to far greater lengths than in the 1920s, and has promoted marked uptrends in prices of farm and urban real estate as well as in wholesale and retail prices of goods and services. And the volume of public and private debt in many forms has grown enormously in money terms. In the decade 1962-71 mortgage debt on 1- to 4-family nonfarm houses roughly doubled and consumer credit outstanding more than doubled, to totals that would have seemed astronomical in 1929.³⁵

Emphasis on what used to be called "fiscal integrity" was overdone in the interwar period, if not when the federal debt was steadily reduced in the prosperous 1920s, then in the trough of depression when tax rates were raised to hold down budget deficits, which nevertheless kept rising in the later 1930s in spite of Presidential intentions and assurances.⁸⁶ But we have swung far to the other extreme, as if the very idea of fiscal integrity or responsibility, even if reinterpreted, were obsolete. Responding to incessant demands from all quarters, the Congress has stubbornly resisted what President Nixon termed in his first *Economic Report* "the discipline of keeping claims and plans within the limits of our capacity, and to make sure that excessive claims do not prevent us from achieving our most important goals."⁸⁷ His Council of Economic Advisers flatly said in its second report: "There is a natural tendency in the political process to add commitments for continuing expenditures while clipping away—slowly and gradually, or occasionally with bigger strokes—at the revenues."⁸⁸ We are often reminded of the slogan dubiously attributed to Harry Hopkins (1890–1946): "Spend and spend, tax and tax, elect and elect!"

The gross federal debt, which rose from \$40.4 billion in mid-1939 to \$269 billion in mid-1946, fell only to \$252 billion two years later, and by mid-1960 had reached \$291 billion. Deficits continued in every fiscal and calendar year of the unprecedented 104-months expansion in 1961–70 except 1969, and by mid-1970 the gross federal debt had reached \$383 billion; in mid-1972 it was \$437 billion. Interest charges on the federal public debt, which had shrunk by one-third in 1920–30, doubled in fiscal years 1964–71 under the influence of enlarged debt and high interest rates.⁸⁹ Moreover, legal juggling of accounts, adoption of programs that start small but inevitably grow, and expansion of commitments outside the budget,⁴⁰ have well-nigh wrecked the budget-control system itself. State and local indebtedness has risen even more impressively—more than 9-fold in 1927–69, to \$132 billion, nearly doubling in 1960–69;⁴¹ and proposed bond issues have encountered increasing rejections in public referenda.

Our international balance of payments has been in deficit ever since 1958, and our merchandise trade balance declined irregularly after 1964 until consecutive monthly deficits have been registered since April 1971, except for the surplus in September 1971. The U.S. dollar became the major reserve currency, but our once-huge gold stock dwindled while foreign official institutions and individuals found themselves impelled or forced to acquire swelling dollar assets.⁴² Numerous currencies had been revalued, mostly downward, and several monetary crises preceded the one centering on the dollar in the summer of 1971⁴³ which led the Nixon Administration to suspend gold redemption of the dollar and to take other strong steps with unpredictable consequences.

Meanwhile, our technology and consumption habits have given rise to threats of an extreme energy crisis and, together with most unsatisfactory disposal of industrial and household wastes, have led to enormous increases in pollution of air and water. Our "welfare" system is rife with abuses and incentives to "illfare," and the very concept of welfare urgently calls for realistic revision. Our burgeoning cities are bogged down in social and financial distress. Our educational institutions at all levels are under attack from many sides. Race tensions seem to grow despite impressive progress in dealing with race problems. After years of mod-

erately successful efforts toward freer international trade, there has been an ominous resurgence of protectionism in various forms. Those who rightly predicted the "soaring sixties" did not foresee that they would be *searing* too, in a great many ways.

We tend to exaggerate what is wrong, and to minimize what is right, with our current way of life. On the whole, with all its faults, this is still a wonderful country to live in, as most Americans realize. But our performance is so far below our potentials—in the broadest sense—that it is not surprising that disenchantment with "the establishment" has swelled to a point where a kind of social despair has spread, not only among those under 30, and that all sorts of protests, demonstrations, and destructive acts have proliferated in a society that is exceedingly vulnerable at many points.

ECONOMIC INTELLIGENCE

There has been an enormous expansion of economic "intelligence," professional training, sophistication, equipment, and specialized researches in the past half century. Yet "the knowledge gained is still woefully inadequate to meet society's needs," as Burns wrote in 1946.⁴⁴ As late as July 7, 1971 the President of the Royal Economic Society (E. H. Phelps Brown) addressed its annual meeting on "The Underdevelopment of Economics."⁴⁵ Despite progress in other "social sciences" and interdisciplinary researches, it still needs to be emphasized that *economics is not enough*, and we continue to expect economists to be problem-solving social engineers without our having developed some such distinct profession.⁴⁶ Substantial achievements are so dwarfed by many unsolved problems that we seem to keep on "missing the boat."

The so-called "Keynesian revolution" has gone through several phases.⁴⁷ Keynes's thought and utterances have exerted profound influence on economic thought and public policy in the past three decades. But his thinking underwent great changes during his lifetime (1883-1946), and surely would have undergone more if he had lived longer.⁴⁸ He himself was impatient with those who almost deified him, never claimed to have presented a complete guide to public policy, and well realized that translation of precept into policy is typically imperfect. It is hard for me to believe that he would have failed to recognize the emerging menace of inflation, among others, in the later 1960s.⁴⁹

Again in the mid-1960s, as in the later 1920s, stress was laid on the long continuance of general prosperity and economic advance; on the prospect that severe contractions and depressions are obsolete if not extinct; on the inherent strength of the American economy; on the factors and forces capable of reversing tendencies to contraction, such as the Federal Reserve System in the 1920s and federal fiscal and monetary policy in the 1960s; and there was a tendency to disregard the fallibility of experts and diversity of opinions among them. Again, relatively little interest was manifested in probing for subtle vulnerabilities to be expected in protracted good times. Again, the tendency was to project past trends (some with sophisticated techniques) in many domestic series—such as gross national product, disposable personal income, and personal consumption expenditures, in total and per capita—and to be content with grossly inadequate size-ups of adverse international potentials. Again, there was the disposition to

take lightly the dangers of letting problems build up without vigorous steps toward solving them.

Economic warning signs in abundance developed here in the second half of the 1960s.⁶⁰ Interest rates moved irregularly up to long-time high levels in 1969–70.⁶¹ The spread between yields on best-grade corporate bonds and common-stocks dividend yields widened to over 4 percent in 1970, and the widening has continued. The CPI zoomed upwards, and the WPI followed suit with an interruption in 1966–67. As already noted, our international balance of payments kept shrinking with occasional interruptions, and our merchandise trade balance shrank from its high in 1964 until imports exceeded exports in several months of 1968–69 and 1971. Major corporations experienced liquidity crises and a few faced or went into bankruptcy—notably the Penn-Central Transportation Company in June 1970. These and other warnings were little heeded.

Social scientists cannot escape a share in responsibility for this outcome. Despite some deficiencies in data, the tables and charts in readily available official and unofficial sources clearly revealed the private and public spending orgies that were under way, the feverish pace of activity, and the potentials for serious trouble ahead. As in 1929, however, the full significance of all this was rarely expressed and too little recognized. Few seem able to see the forest as well as the trees, to maintain a sound perspective, and to speak and write intelligibly and effectively as specialized jargons multiply. Too many of us delight in diversity of opinion and acidulous criticism, avoid seeking agreement or to narrow the range of disagreement, and fall prey to current intellectual fads. Our insights are too limited, our oversights too numerous.

Some reasons may be suggested. Many specialists are absorbed in pressing tasks of great variety, often slowly maturing ones, in academic, business, and governmental positions. Many follow the near-term course of events with great care; some concern themselves with long-term problems and outlooks; few focus on the intermediate periods in which unsolved problems typically reach a climax. The Council of Economic Advisers, working under extreme pressure in writing its annual report, presumably feels impelled to restrain its utterances on delicate issues such as labor, the dollar, and public spending, because it is part of the President's team. An optimistic bias is perhaps inevitable in such documents and in presidential utterances, for the same reasons that influenced the speeches of Presidents Coolidge, Hoover, Roosevelt, and Johnson. Jeremiahs are seldom elected to office; and the role of Cassandra, predicting unpalatable truths that will not be believed, has negative appeal. Some share the common obsessions, while others are scared into silence when their own view of the future is dark.

In the 1960s as in the 1920s there were many reasons, apart from shortcomings of social scientists, why such problems were allowed to build up to the point where almost any unfavorable combination of events could bring on a severe crisis. The very complexity of our world is a major factor. For many problems, acceptable solutions are inherently difficult to find. Corrections of wrong ideas firmly held, and of grave misjudgments, are painful, and hard decisions are the more difficult to make the longer matters are allowed to drift. Public opinion, often ill-informed and highly volatile, exerts powerful influence, and political leaders are characteristically reluctant to face disagreeable facts courageously

until they must. The will to act is often weak. We are prone to adopt a set of goals each of which is attainable if given top priority but which in combination are not. The art of forecasting is imperfectly developed; the force of momentum and lags in policy effects tend to be underestimated; and the consequences of action or deferral of action are inadequately appraised. We still tend to expect too much, too soon—of the President, the Congress, and the Federal Reserve System, fallible though all demonstrably are.

So it happened, as often before, that wholly inadequate preparation had been made for dealing with the highly complicated problems that confronted the world in the summer of 1971. The year came to a close with several pregnant events: President Nixon's startling announcement of August 15, his decisions to visit Peking and Moscow in the first half of 1972, the admission of the People's Republic of China into the United Nations, the British Parliament's acceptance of terms for joining the European Economic Community, and the Smithsonian currency agreement of December 18. Withdrawal of American armed forces from Southeast Asia had gone far, if not with the precipitate haste that many demanded, but the Vietnam Paris negotiations were still fruitless, and the end of American airpower and economic aid to countries in the area was not in sight.

On a new tact, in the past twelve months, the Administration has addressed serious problems that had been allowed to build up to critical dimensions. The unfolding steps are properly subject to intelligent scrutiny, and inevitably subjected also to extreme attack in a presidential election year. Fortunately, the majority of Americans seem to realize that we have only one President, and that he needs sympathy, cooperation, and discriminating support as difficult details are worked out and hard domestic and international decisions reached. Yet we must reckon with proclivities for hypercriticism and with traditional American ingenuity to evade rules and regulations by all sorts of legal and illegitimate means. Clearly it is of high importance that we strive to improve our individual and collective judgments at all levels, and to renew and sustain a spirit of reasonableness and reconciliation of clashing interests and ideas, both at home and in international affairs.

Some successes have been achieved. Tensions between the United States and the People's Republic of China, and between this country and the Soviet Union, have been significantly eased, and this is bearing fruits of several kinds, for the most part good. Rapprochements between Japan and mainland China, and between North and South Korea, have begun. Arab-Israeli tensions seemed less acute as the cease-fire entered its third year. In the Indian subcontinent some progress toward settlements is being made. Here at home marked increases in employment have been registered, manufacturers' orders for durable goods have climbed, real wages and business profits have improved, the upsurge of the economy has acquired momentum, and recent forecasts for 1973 are largely favorable. The strong uptrend in man-hour output in the past 2½ years is gratifying.

On the other hand, we are by no means out of the woods. Bitter fighting continues in Southeast Asia, and the Paris negotiations have not yet led to an acceptable agreement. Little obvious progress has been made in restoring international monetary order, or in countering threats of more shackles upon trade. The imbalance in our international trade and payments persists, though the adverse

balance of trade was sharply lower in the second quarter of 1972. Unemployment is still excessive and industrial peace, though recently improved, is insecure. Price indexes reflect some lessening of price inflation, but the inflationary force of large federal deficits has even risen. Federal credit programs have dramatically increased for several years, and resistance to all sorts of demands for federal funds is notoriously weak in the year preceding a presidential election. The atmosphere of election year—full of claims and counterclaims, charges and countercharges, misrepresentations and distortions, and competition in promises to the voters—is not conducive to genuine progress in dealing with obstinate problems, or even to seeing them clearly.

Others are in a better position to appraise current economic and political policies, to judge their degrees of success to date, and to forecast the future.⁵² If I were able to do so, this would not be the time or the medium for stating my views. I do not presume to predict or advise. In this crucial transition period, however, I venture a few concluding observations in the perspective of sixty years, for whatever relevance they may have to the years ahead.

PERSPECTIVE, MID-AUGUST 1972

As in 1919–20 and 1929–31, the gravity and complexity of the current crises can easily be underestimated and the speed with which they can be overcome can be overestimated, and recently have been. Prolonged illnesses of societies, as of individuals, usually must involve prolonged convalescence. In its various phases, confidence has been seriously eroded and then profoundly shaken, as it was when the United States shockingly reverted to isolationism in 1919–20, when Wall Street crashed late in 1929, when the international monetary system broke down and Great Britain left the gold standard in 1931, when President Hoover's successive moves failed to reverse the economic contraction, when President Roosevelt took the United States off the gold standard early in 1933, and when Hitler moved forces into the Rhineland in 1936, rebuilt Germany's armed power, and later gobbled up Austria and Czechoslovakia.

Historically high personal-saving rates and striking growth of life-insurance policies in force attest the welcome fact that we have not approached the crucial point—never closely predictable as to timing—when millions rush to spend their paper or bank dollars for goods or real estate before they lose more buying power. This need not happen here, but it would be foolish to ignore the danger, however remote it may seem. Restoration of confidence is rightly regarded as a key factor in the return to normal, but the process is ill-understood, takes time, and calls for better than outworn methods.

There have been ample grounds for protest, even rebellion of sorts; but, as often before, their relative importance has been exaggerated. Wantonly destructive tactics have become distressingly prevalent, here and abroad. Many persons seem to be in the grip of a kind of insanity, reminiscent of the different form that was so widespread in the speculative crazes of the late 1920s. Indeed, we seem to be suffering from internationally contagious mental diseases which are little understood. Ways to diagnose and deal with these forms of aberrant behavior must be sought. But much of what is widely deplored can be explained by well known facts: unthinking indulgence in unwise individual habits, proneness to follow

current social fads, and reluctance to pay the penalties of resisting such pressures. More of us need to come to our senses. There are indications that this process is under way, but it has far to go. We have an abundance of brains, but need to keep on learning to use them better.

Some goals are unattainable in the calculable future. Some problems are so complex that they seem to defy analysis. Some strongly held positions are utterly irreconcilable. Problems can be so conceived as to be incapable of solution. Yet most of the multifarious ones that we face are inherently soluble, and rational ways can be found to deal with intractable ones. There are constructive ways out of what seems a veritable morass; and among better and worse ways the most practicable must be sought calmly and patiently, however urgently.

We are easily misled by all sorts of depressing news into overstressing what is wrong and overlooking what is right with us. We are a vibrant, vigorous people, with a resilient economy in a "permanent revolution."⁵³ Despite flagrant abnormalities, there is a vast reserve of normality in us. Honesty, industry, thrift, kindness, and pride in earning one's living and paying one's way are still common virtues, even if they may seem to be less common than formerly. Some of these virtues can be misdirected or carried to excess, but they are not obsolete and do not deserve to be disparaged as oldfashioned. The ingenuity and resourcefulness of individual citizens, enterprise at the grass roots, are invaluable national assets. All these we need to utilize and to beware of undermining.

Much more than "charity" can begin right at home. Let us not underestimate what each person can do in his limited circle: for example, in maintaining his health; fitting himself to fill jobs within his capacity and finding them, whether remunerated or not; improving his judgment; making sensible consumer and investment choices; coping with price inflation; avoiding accidents and traffic congestion; cleaning up litter as well as avoiding litterbugging and careless setting of fires; reducing pollution of air and water; moderating friction and easing tensions; cheerfully accepting disappointments and adversity; and heartening others. Much is being done, in these and other ways, by individuals, families, and local groups. As more adopt such practices, the aggregate contribution toward the solution of world problems can be of great significance, for learning how to live more harmoniously together will strike at the root of most of our difficulties at all levels.

While our average consumption level has risen to unprecedented heights—in 1968-71 double what it was in 1929⁵⁴—Utopia still eludes us. Prosperity, even long extended, is not enough. Affluence, with all its advantages, seems to breed jealousy, crime, and violence. The well-being, welfare, or level of living of a people or group is imperfectly measured by its consumption level.⁵⁵ As that level rises above some height in an affluent society, intangible components of the level of living (such as leisure, freedoms of many kinds, security of life, health and property, and "atmosphere") increase in relative importance.

Extreme deprivations of food, clothing, and shelter exist in this country, but are comparatively rare even among the poor. Much malnutrition is due to bad choices, not to shortages of goods or income. Obesity, alcoholism, drug abuse, and many other serious ills are manifestly due to excesses. Older people, now increasingly numerous, find that overindulgence of wants for food, drink, tobacco,

drugs, amusement, and travel can injure their health and diminish their satisfactions; that simpler living is preferable to increasing complexity, and stability to incessant change; and that beyond some point additional possessions become burdensome and even additional wealth entails unwelcome responsibilities. Many younger people have come to recognize the same truths, and to rebel against becoming deeply involved in the "rat race" and its tensions—relentlessly exposed in Arthur Hailey's best-selling novel, *Wheels*.

In view of all this, I question the common assumption that indefinite expansion of personal income and per capita consumption is universally craved and should be a prime objective of public policy as well as private advertising. Indeed, it seems to me hardly sensible that we should strive to promote the health of the economy by ever expanding aggregate and per capita personal consumption expenditures.

I am constrained to question other firmly held ideas. Does maximizing the rate of economic growth deserve high priority among our national objectives? Does our basically vigorous economy really need almost incessant stimulation? Can we not well afford to moderate our feverish pace of working and acquiring? As women, teenagers, and Vietnam veterans flood into the civilian labor force, is not an overall 4 percent unemployment figure an overambitious standard for early attainment?⁵⁶ When all sorts of service deficits pervade our society, must we not rely more on individual jobseekers to develop and apply their talents to fill these? Can genuine welfare be enlarged by subsidies and doles of all sorts, regardless of consequences to recipients and of taxpayer revolts as well?

It seems to me clear beyond peradventure of doubt that we have been asking far too much of federal and state governments, set excessive goals for early attainment, slighted the need for balance in public "programs," and gone too far in ignoring individual initiatives. Avoidance of severe depression is surely a proper objective, but avoidance of "galloping," "trotting," or even "creeping" inflation is surely another. Pauses and recessions have therapeutic values, and in our eagerness to nip them in the bud we risk bigger troubles later. Mitigation of poverty in our affluent society is a sound aim, but its abolition in less than the very long term can be illusory as well as too costly in more than money outlays. Our disillusionment with successive Presidents, we are slow to realize, is due only in part to their shortcomings and blunders, and in large part to our excessive expectations of and demands upon them. Simple realism calls for wider recognition of this unpalatable fact; if we close our eyes to it, the penalty can be heavy.

I see no sign that the strong trend toward increasing dependence on federal, state, and local governments is turning or about to turn, but I am not ready to accept its indefinite continuation as inevitable. Many trends have turned, and this one is subject to changes, by private and public actions, as our thinking evolves. It is high time to explore the prospective consequences of letting it continue and possible ways of changing it.

As one sober observer, I cannot join either the alarmists or the Pollyannas. Before something like normal equilibrium can be attained, grim challenges must be met here, and in the world at large. Such challenges have often been met before, more or less successfully. Perfection is unattainable, but progress is possible with

all sorts of imperfections. Most of us live in glass houses and can ill afford to throw stones. Discouraging as the situation often seems, despair is never warranted. Conceivably, as in 1923-24, a notable breakthrough for the better may come before we realize it is coming. Though short-run hopes are liable to prove illusory, and ways out of present difficulties seem to overstrain our present wisdom, our basic optimism can well be justified.

NOTES

1. Lord Robbins, *Autobiography of an Economist* (Macmillan, London, 1971), esp. Chap. 9.
2. Robert Murphy, *Diplomat Among Warriors* (Doubleday, Garden City, N.Y., 1964), esp. Chaps. 12-22.
3. U.S. Dept. State, *Publications 2616, 2670*, European Series 13 and 18.
4. Murphy, *op. cit.*, pp. 328-30.
5. Herbert Feis, *Foreign Aid and Foreign Policy* (St. Martin's Press, New York, 1963, 1964); R. E. Asher, *Development Assistance in the Seventies: Alternatives for the United States* (Brookings Institution, Washington, 1970); *Economic Report of the President* (hereinafter cited as ERP), Jan. 1972, Table B-90.
6. *Ibid.*, Table B-16.
7. *Ibid.*, Table B-20.
8. Cleveland Trust Co. (CTC), *Bus. Bull.*, Nov. 1971, July-Aug., 1972; *Economic Indicators*, Aug. 1972, p. 34. Yields on AAA corporate bonds have been above common-stocks dividend yields since late in 1958, and the spread widened greatly in 1965-71, to average 4.25 percent in 1971.
9. U.S. Board of Governors, Federal Reserve System (FRS), *Historical Chart Book*, 1971, pp. 32-33; Hurd Baruch, *Wall Street: Security Risk* (Cecropolis Books, New York, 1971); John O'Riley in *Wall Street J.*, Dec. 6, 1971; and chart covering 1919 to mid-Aug. 1972 in Monetary Research Ltd., *The Bank Credit Analyst* (Hamilton, Bermuda), mid-Aug., 1972.
10. See Gottfried Haberler, "Integration and Growth of the World Economy in Historical Perspective," *Am. Econ. Rev.*, Mar. 1964, pp. 1-22, esp. pp. 3, 11-14.
11. Lionel Robbins, *The Great Depression* (Macmillan, London, 1934), p. 196.
12. Murphy, *op. cit.*, pp. 208-09, 256, 264, 279, 301-02, 306, 312, 363, 435.
13. See four valuable papers in 1971 issues of *Foreign Affairs*, by W. P. Bundy, H. E. Salisbury, Dean Acheson, and C. W. Yost, XLIX, pp. 187-200, 381-94, 593-604, and L, pp. 59-68.
14. P. C. Jessup, "The Berlin Blockade and the Use of the United Nations," *ibid.*, L, pp. 163-73.
15. J. P. Grant, "Marginal Men: The Global Unemployment Crisis," *ibid.*, L, pp. 112-24. The term "developing world" means the more backward nations.
16. J. E. Meade's review of *Population, Resources, Environment: Issues in Human Ecology*, by P. R. and Anne H. Ehrlich (W. H. Freeman, San Francisco, 1970), in *Econ. J.*, June 1971, pp. 428-30. Cf. Barbara Ward, Lenore D'Anjon, and J. D. Runnalls, eds., *The Widening Gap: Developments in the 1970's*. A record of the Columbia Conference on International Economic Development, Williamsburg, Va. and New York, Feb. 15-21, 1970 (Columbia Univ. Press, New York, 1971).
17. Late in 1949 I touched on this question, and I am not ready to alter the views then expressed (*J. Am. Stat. Assn.*, Sept. 1950, pp. 346-49). See also Feis, *op. cit.*, pp. 237-38, and J. M. Keynes, *The General Theory of Employment, Interest, and Money* (Harcourt Brace, New York, 1936), p. 372: "The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and income."
18. U.S. Dept. Commerce, *Statistical Abstract of the United States*, 1971, p. 476.
19. *Ibid.*, pp. xv and Sec. 5; J. E. Metz, *The Economics of Crime* (Joint Council on Econ. Educ., 1971); CTC, *Bus. Bull.*, Oct. 1971; and Ramsay Clark's recent book *Crime in America* (Simon and Schuster, New York, 1970).
20. Sir Arthur Salter, *Recovery: The Second Effort* (Century, New York, 1932), p. 210.

21. Cf. T. C. Sorensen, "Kennedy's Worst Disaster," *Look*, Aug. 10, 1965, pp. 42-50, and *Kennedy* (Harper and Row, Washington, 1965). Cf. also Stewart Alsop, *The Center: People and Power in Political Washington* (Harper and Row, Washington, 1962).

22. J. A. Kershaw, *Government Against Poverty* (Brookings Institution, Washington, Oct. 1970). Kershaw concluded "that despite some early successes, anti-poverty programs have been stymied by inadequate federal support."

23. Table B-94 in *ERP*, Jan. 1972, gives consumer-price indices, 1957-71, for eight major industrial countries. Others are available in FRS, *Fed. Res. Bull.* Cf. Gottfried Haberler, *Inflation: Its Causes and Cures* (Am. Enterprise Assn., Washington, June 1960—substantially completed in Sept. 1959), p. 54. Much the same statement appears in the revised and enlarged edition of June 1961, which is reprinted in another, published by the Am. Enterprise Institute, July 1966, with *A New Look at Inflation—May 1966*.

24. *ERP*, Feb. 1971, p. 78.

25. CTC, *American Business Activity Since 1790*, 1971 ed.

26. FRS, *Historical Chart Book*, 1971, pp. 96-99; M. R. Gainsbrugh and Jules Backman, *Inflation and the Price Indexes* (NICB Studies in Bus. Econ. 94, July 1966); *ERP*, Feb. 1971, Tables C-3, C-45-49.

27. For discussion of this view, see Haberler, *Inflation*, pp. 11-12, 23-26, 76-79. In the Economic Council of Canada's first annual review, *Economic Goals for Canada to 1970*, an increase of about 1½ to 2 percent per annum was considered consistent with the goal of "reasonable stability of prices. . . . The historical record over the past decade shows average annual increases in consumer prices of 1.4% and in prices of all goods and services in Canada (GNP) of 2.0%."—NICB, *Conference Board Record*, Mar. 1965, pp. 36-42, esp. pp. 36, 40-41.

28. Burns's Millar Lectures under this title were given at Fordham University in 1957 (Fordham Univ. Press) and he returned to the subject in the 1965 Benjamin F. Fairless Memorial Lectures (Columbia Univ. Press, 1966), and in several later addresses, e.g., Dec. 7, 1970. In 1957 (p. 20) he said that "an acceptable solution of the problem of creeping inflation" was not yet in sight and did not seem to be seriously sought. This is still true.

29. Cf. Haberler, *Inflation* (1966 ed.), pp. 65-71, 74-78, 94-95, 118-20.

30. *Ibid.*, pp. 7-8, 30-31, 46; and First Natl. City Bank of N.Y., *Monthly Economic Letter*, Dec. 1971, pp. 8-10.

31. Haberler, *Inflation* (1960 ed.), p. 68, and *ibid.* (1966 ed.), p. 111.

32. *Ibid.* (1966 ed.), pp. 1-5.

33. In a passage in the Council of Economic Advisers' (CEA) 1971 annual report (pp. 60-62) headed "Why Is the Inflation So Stubborn," stress is laid on "the momentum built up by the inflationary pressure which began in mid-1965 and continued well into 1969," as illustrated by the built-in wage increases in union contracts negotiated in 1968-70. But no mention is made of the important contributions being made by the federal deficits and expanding money supply. Cf. Haberler's observations quoted on p. 16, his *New Look at Inflation—May, 1966*, and below, p. 20.

34. In his Crowley Memorial Lectures at the Wharton School, Univ. of Pa., in April 1969, A. M. Okun, recently Chairman of the CEA, presented the substance of his candid book, *The Political Economy of Prosperity* (Norton, New York, 1970), the highlights of which were published in *Brookings Res. Rept.* 102 as "Prosperity Without Inflation" (Washington, 1970); see esp. pp. 4-5.

35. The relevant data are readily accessible in FRS, *Historical Chart Books*, *ERP'S*, *Stat. Abstr. U.S.*, and the monthly official *Economic Indicators*.

36. Cf. Herbert Stein, *The Fiscal Revolution in America* (Univ. of Chicago Press, 1969), Chaps. 2, 6, esp. pp. 26-38, 98, 102, 104-08.

37. *ERP*, Feb. 1970, p. 4.

38. *Ibid.*, Feb. 1971, p. 97.

39. U.S. Dept. Commerce, *Historical Statistics of the United States*, Ser. Y 257; *Stat. Abstr. U.S. 1971*, pp. 372-74; *Economic Indicators*, Dec. 1971, pp. 35-36. Fuller details are given in *ERP*, Jan. 1972, Tables B-63 to B-72.

40. See "The Hidden Bulk of the National Credit Iceberg," First Natl. City Bank of N.Y., *Monthly Econ. Letter*, July 1971, pp. 8-12; Maurice Mann, "Has Federal Borrowing Hit Limit?" *Wall Street J.*, Aug. 18, 1972, p. 4.

41. *ERP*, Feb. 1971, Table C-62; *Hist. Stat. U.S.*, Ser. Y 545; and *Stat. Abstr. U.S. 1917*, p. 403.

42. FRS, *Historical Chart Book*, 1971, pp. 110-14; CTC, *Bus. Bull.*, Dec. 1971 (chart). Late in November the U.S. Treasury reported that dollar holdings of foreign governments rose by about \$1 billion in September to \$35 billion, while the gold stock stood at \$10.2 billion. In his posthumous book, *Economics and the Public Welfare* (Van Nostrand, New York, 1949), pp. 358-69, B. M. Anderson made some prophetic observations.

43. L. B. Krause, *Recent International Monetary Crises: Causes and Cures* (Brookings Institution Reprint 205, 1971).

44. A few out of many references may be cited: twelve papers presented June 6-7, 1946 on *Economic Research and the Development of Economic Science and Public Policy* (Natl. Bur. Econ. Res., New York, 1946), esp. Preface by A. F. Burns and paper by L. W. Douglas (pp. 101-18); "Lessons and Legacies 30 Years After," *The Economist*, June 17, 1961, pp. 1263-89; "Frontiers of Economics," *ibid.*, Nov. 12, 1966, pp. 681-82; E. G. Nourse, "The Employment Act and the 'New Economics,'" *Va. Quar. Rev.*, Autumn 1969, XLV, pp. 595-612; H. L. Willensky, *Organizational Intelligence: Knowledge and Policy in Government and Industry* (Basic Books, New York, 1967), and *Annals Am. Acad. Pol. and Soc. Sci.*, Mar. 1970, pp. 46-58; brief comments on recent books in *Econ. J.*, June 1970, pp. 480, 482, 483, 490, 496; a Committee report sponsored by the Natl. Acad. Sci. and the Soc. Sci. Res. Coun. on *The Behavioral and Social Sciences: Outlook and Needs* (Prentice-Hall, Englewood Cliffs, N.J., Dec. 1969), and nine volumes on specific fields (same publishers, Nov. 1969-Mar. 1971), and discussion of the economics report in *Am. Econ. Rev.*, May 1971, esp. pp. 43-45; and four papers on *ERP*, Feb. 1971 in *Am. Econ. Rev.*, Sept. 1971, pp. 517-37.

45. *Econ. J.*, Mar. 1972, pp. 1-10. See also G. N. D. Worswick, "Is Progress in Economic Science Possible?" *ibid.*, pp. 73-86. Also relevant are brief comments in review notices by G. H. Lawson and D. N. Chester, in *ibid.*, Sept. 1971, pp. 641, 647; Joan Robinson's Richard T. Ely Lecture "The Second Crisis of Economic Theory," Dec. 28, 1971, in *Am. Econ. Rev.*, May 1972, pp. 1-10; and Benjamin Ward, *What's Wrong with Economics?* (Basic Books, New York, 1972).

46. Cf. J. S. Davis, "Statistics and Social Engineering," *J. Am. Stat. Assn.*, May 1937, pp. 1-7, reprinted in my *On Agricultural Policy, 1926-1938* (Food Res. Inst., Stanford, Calif., 1938), pp. 51-59.

In its 1969 report (pp. 11-13, 200-10) cited above, the Behavioral and Social Sciences Survey Committee (1966-69) recommended the establishment of Graduate Schools of Applied Behavioral Science. This bears some resemblance to my abortive proposal of Graduate Schools of Social Engineering, in which I stressed the training of "social engineers" for private as well as public professional work. My term encounters prejudice because it seems to imply manipulation, especially by governments, which is abhorred.

47. See Stein, *Fiscal Revolution in America*, Chap. 7, pp. 461–62 *et passim*.
48. See esp. his posthumous article, “The Balance of Payments of the United States,” *Econ. J.*, June 1946, pp. 172–87.
49. Haberler expressed this view in the 1966 edition of his pamphlet—*op. cit.*, 1966 ed., pp. 97–100. Cf. also J. M. Keynes, *General Theory*, Chap. 19, esp. pp. 270–71, and Robbins, *Autobiography*, pp. 211–12. A Stanford colleague who was present at a dinner honoring Lord Keynes in 1944 or 1945, in Washington, recalls hearing him emphatically say, in opposition to another speaker, that the postwar danger from inflation would be greater than that from depression.
50. See tables in *Fed. Res. Bulletins*, *Economic Reports of the President*, and *Stat. Abstr., U.S., 1971*, and charts in FRS, *Historical Chart Book, 1971* (Oct. 1971), and *Economic Indicators*, e.g., Dec. 1971, pp. 23–24, 26–27, 33–34.
51. See “The Anatomy of Interest Rates,” in First Natl. City Bank of N.Y., *Monthly Econ. Letter*, Nov. 1971, pp. 5–10, which concludes: “The sharp rise in interest rates in the latter half of the sixties was due to expectations of increasingly rapid inflation and little more. Real interest rates—both short-term and long-term—have been relatively stable over the last 10 years. . . .”
52. E.g., A. M. Okun published in Feb. 1972 his “Political Economy: Some Lessons of Recent Experience” (Brookings Institution Reprint 236, July 1972).
53. In Feb. 1951 the Editors of *Fortune*, in collaboration with R. W. Davenport, published *The U.S.A.: The Permanent Revolution*; and in May it was reprinted in book form (Prentice-Hall, Englewood Cliffs, N.J.). After twenty-one years, this bears rereading.
54. *ERP*, Jan. 1972, Table B–16, per capita consumption expenditures in 1958 dollars.
55. See my address “Standards and Content of Living,” *Am. Econ. Rev.*, Mar. 1945, pp. 1–15. In Jan. 1962 the U.S. Dept. of Health, Education, and Welfare published *Toward a Social Report*, on which it had made approaches over a period of years. In the *Survey of Current Business*, Jan. 1971, E. F. Denison contributed a valuable paper on “Welfare Measurement and the GNP” (Brookings Institution Reprint 196, May 1971), and concluded: “A single, generally acceptable index of welfare cannot be constructed. . . . GNP and NNP [gross and net national product] cannot be transformed into a comprehensive welfare measure. Efforts to do so can only impair their usefulness for the very important purposes of both long-term and short-term analysis that they now serve well.” In the July issue A. M. Okun argued similarly (*Brookings Institution Bull.*, Summer 1971, pp. 4–7).
56. See cogent comments by John O’Riley in *Wall Street J.*, Dec. 27, 1971, p. 1.