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READINGS
IN
CURRENT
ECONOMICS

Readings in **CURRENT ECONOMICS**

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PREFACE

This collection of readings is designed to complement standard textbooks by providing, in accessible form, material that should make the first course in economics more meaningful and useful. Because of the many changes in the focus of both national and international affairs since the publication of *Readings in Current Economics*, the revised edition shows substantial alteration. In particular, obsolete articles have been removed and more timely ones have been substituted. While the editors felt that the basic outline of the book should remain unchanged, we did divide the first part of the international section into two parts, "United States Foreign Economic Policy" and "Economic Development and Growth of Foreign Nations," in order to facilitate the grouping of articles for assignment and study.

The basic criteria for the selection of articles are the same. The focus is still upon *current issues*, *core topics* and *controversy*. Again, we have limited coverage to twelve core topics, feeling that intensive rather than extensive coverage is the best type of emphasis for outside readings.

Our emphasis with regard to controversy has shifted somewhat from that of the first edition. We have not attempted in every case to bring both sides of a controversy before the student. In some cases, it was not possible to find suitable articles on all sides of an issue; in other cases, space considerations dictated the use of only one article. In these situations where only one point of view was presented we generally selected the side ordinarily not heard. The feeling was that the instructor would, in all controversies, have to guide the students in considering all sides of a question.

We feel that the selections have been improved by moving a bit further in the direction of fewer but longer articles. Careful editing of the articles was still necessary, however, so that a reasonable number of important issues could be considered.

To illustrate practical measurements of analytical and statistical concepts, we have appended a series of basic statistical tables, correlated with each major section. They provide data showing the magnitude and rate of change of the variables so often under discussion in the classroom. Following our general pattern, the statistical section has been revised and brought up to date. Recent data were added to most of the tables and some new tables have been included.

In an effort to provide more guidance in the use of the various sections and articles of the book, the introductions preceding each section have been made longer and tell more about the meaning and use of each article. In addition, important aspects of the statistical tables relevant to each section are discussed to provide guidance for student use.

The order of the readings represents one possible logical grouping rather than any preconceived teaching chronology. Thus, the articles can be used to complement texts of differing organization. The readings may be assigned individually or in composite units following the various sections of a course. For offerings in economic problems or policy, the latter procedure has special merit.

The editors wish to express appreciation to the many professors, colleagues, and students who offered constructive criticisms in helping make this a more useful and meaningful complement to the teaching of economics. We, of course, take full responsibility for the selections and the failure to incorporate some of the valid criticisms of the first edition. Again, we wish to thank the authors and publishers for reprint privileges and to emphasize that we have abridged most of the selections. Finally, because the value of this book depends, fundamentally, on the quality of the articles, we owe a special debt to the authors.

THE EDITORS

Pullman, Washington
April, 1961

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A. Goals of Economic Policy

Just after World War II, with the memory of the depressed 'thirties and wartime inflation fresh in its mind, Congress held hearings on the problems of economic stability. During the course of these hearings representatives of business, labor, and agriculture expressed themselves in favor of positive federal legislation to minimize unemployment and inflation. In 1946, sensitive to these widespread desires, Congress passed the Employment Act declaring that it is the responsibility of the federal government to use "all practicable means" to promote economic stability. Nevertheless, since then we have had four minor downturns; and consumer prices have risen by nearly 50 per cent in the postwar period.

Relevant parts of the Employment Act are presented in the lead article. A careful reader will recognize that Congress was quite aware of a need to participate in questions of general welfare and economic stability. However, it must be noted that the "Declaration of Policy" was a political compromise among men holding widely opposing views on the role of government, and, therefore, resulted in qualifying phrases and some ambiguity.

The next two readings provide statements by government committees regarding the nation's economic objectives. The statement by the Nixon Committee (the Cabinet Committee on Economic Growth) can possibly be interpreted as reflecting the aims of the Republican administration, while the statement by the Douglas Committee (the Joint Economic Committee of Congress) may be interpreted as reflecting the aims of the Democratic-controlled Congress. A comparison of these statements reveals substantial agreement regarding the basic aims of the economy. Both emphasize the need for economic growth, high and stable levels of employment, and stable prices. Yet, the critical reader will note slight differences in the role of government and in the methods for implementing general economic policy.

The final article by Stigler critically evaluates the conventional objectives of economic policy. He suggests that our basic economic goals should reflect the specific civilization of our society rather than the general goals of all societies. For the Western world the possession of personal freedom and responsibility by individuals should be the supreme goal.

1. EMPLOYMENT ACT OF 1946

An Act

To declare a national policy on employment, production, and purchasing power, and for other purposes.

Short Title

Section 1. This Act may be cited as the "Employment Act of 1946."

Declaration of Policy

Section 2. The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governments, 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.

Economic Report of the President

Section 3. (a) The President shall transmit to the Congress within sixty days after the beginning of each regular session (commencing with the year 1947) an economic report (hereinafter called the "Economic Report") setting forth (1) the levels of employment, production, and purchasing power obtaining in the United States and such levels needed to carry out the policy declared in Section 2; (2) current and foreseeable trends in the levels of employment, production, and purchasing power; (3) a review of the economic program of the Federal Government and a review of economic conditions affecting employment in the United States or any considerable portion thereof during the preceding year and of their effect upon employment, production, and purchasing power; and (4) a program for carrying out the policy declared in Section 2, together with such recommendations for legislation as he may deem necessary or desirable.

(b) The President may transmit from time to time to the Congress reports supplementary to the Economic Report, each of which shall include such supplementary or revised recommendations as he may deem necessary or desirable to achieve the policy declared in Section 2.

(c) The Economic Report, and all supplementary reports transmitted under subsection (b), shall, when transmitted to Congress, be referred to the joint committee created by Section 5.

Council of Economic Advisers to the President

Section 4. (a) There is hereby created in the Executive Office of the President a Council of Economic Advisers (hereinafter called the "Council"). The Council shall be composed of three members who shall be appointed by the President, by and with the advice and consent of the Senate, and each of whom shall be a person who, as a result of his training, experience, and attainments, is exceptionally qualified to analyze and interpret economic developments, to appraise programs and activities of the Government in the light of the policy declared in Section 2, and to formulate and recommend national economic policy to promote employment, production, and purchasing power under free competitive enterprise.

(c) It shall be the duty and function of the Council—

(1) to assist and advise the President in the preparation of the Economic Report;

(2) to gather timely and authoritative information concerning economic developments and economic trends, both current and prospective, to analyze and interpret such information in the light of the policy declared in Section 2 for the purpose of determining whether such developments and trends are interfering, or are likely to interfere, with the achievement of such policy, and to compile and submit to the President studies relating to such developments and trends;

(3) to appraise the various programs and activities of the Federal Government in the light of the policy declared in Section 2 for the purpose of determining the extent to which such programs and activities are contributing, and the extent to which they are not contributing, to the achievement of such policy, and to make recommendations to the President with respect thereto;

(4) to develop and recommend to the President national economic policies to foster and promote free competitive enterprise, to avoid economic fluctuations or to diminish the effects thereof, and to maintain employment, production, and purchasing power;

(5) to make and furnish such studies, reports thereon, and recommendations with respect to matters of Federal economic policy and legislation as the President may request.

(d) The Council shall make an annual report to the President in December of each year.

Joint Committee on the Economic Report

Section 5. (a) There is hereby established a Joint Committee on the Economic Report, to be composed of seven Members of the Senate, to be appointed by the President of the Senate, and seven Members of the House of Representatives, to be appointed by the Speaker of the House of Representatives. The party representation on the joint com-

mittee shall as nearly as may be feasible reflect the relative membership of the majority and minority parties in the Senate and House of Representatives.

(b) It shall be the function of the joint committee—

(1) to make a continuing study of matters relating to the Economic Report;

(2) to study means of coordinating programs in order to further the policy of this Act; and

(3) as a guide to the several committees of the Congress dealing with legislation relating to the Economic Report, not later than May 1 of each year (beginning with the year 1947) to file a report with the Senate and the House of Representatives containing its findings and recommendations with respect to each of the main recommendations made by the President in the Economic Report, and from time to time to make such other reports and recommendations to the Senate and House of Representatives as it deems advisable.

2. WHAT DO WE REALLY WANT FROM OUR ECONOMY?*

Nixon Committee

AIMS OF ECONOMIC POLICY

What we really want is an ever freer, richer, better life for everyone.

Our economy must provide conditions that develop the mind and the spirit, as well as an abundance of material comforts and mechanical marvels. It must provide expanding opportunities for every individual to realize his own potentialities to the utmost and to open wider vistas for his children. It must encourage initiative, independence, and integrity. It must preserve and enlarge the dignity and moral worth of the individual. Our economy must, in short, strengthen the basic ideals and traditions of American life.

Our ways of working and of consuming constitute a large part of our whole way of life, and are closely intertwined with nearly all the rest. The goods and services provided by our economy, and growth in the economy, provide the means for preserving and enlarging the dignity of the individual. They make it possible to approach more closely our ideals of personal freedom, justice and fair play, broad and equal opportunity, the rule of law, and mutual respect and charity. Those very ideals and traditions are themselves responsible above all else for the unparalleled economic progress which our country has experienced under our Constitution.

These truths, old and familiar and almost commonplace, need to be

* From release of August 17, 1959, of Cabinet Committee on Economic Growth, Richard M. Nixon, Chairman.

restated here because policies for our material well-being must always be dominated by the fact that ours is a nation in which idealism, not materialism, is fundamental, a nation in which the government is the servant, not the master, of the people. If we think at all deeply about problems of economic policy we must recognize that economic growth is not an end in itself but a means of advancing toward more fundamental ends. In considering our economic goals, and in evaluating policies for achieving them, we must always keep in mind their contribution to the things we really want.

What then should be the economic aims of the American people? Their aims should be: (1) economic growth—that is, a large and expanding output of goods and services; (2) maximum employment opportunities; and (3) reasonable stability of the price level.

While maximum employment opportunities and reasonable price stability both contribute to economic growth, they are worthwhile aims in their own right because they contribute directly to our ideals of self-reliance, integrity, and opportunity.

ECONOMIC GROWTH

A large and expanding output of goods and services make possible:

1. A high and rising standard of living—and rapid improvement is as characteristic of the American standard of living as is its high level.
2. National security and adequate roads, schools, and other public facilities.
3. Expanding job opportunities for ourselves and our children.
4. An increasing range of choices of cultural, educational, recreational, religious, and social activities.

A large and expanding output requires:

1. Improving health, education, skills, and job opportunities.
2. Discovering, developing, and conserving natural resources.
3. Expanding science and technology.
4. Increasing and improving our stock of tools, machines, buildings, and other equipment.
5. Improving organization and management, so that men, machines, and resources produce the things that are most useful, and produce them ever more efficiently.

Economic growth is complicated, and defies valid measurement. Numbers purporting to indicate what the rate of growth is, has been, will be, or should be require intricate interpretation. Economic growth is measured sometimes by increases in the nation's total output of goods and services. These increases are partly due simply to population growth, so for some purposes a better criterion of economic growth is average output per person. Even this is unsuitable for some purposes, for it fails to reflect increases in leisure due to shorter working hours, later ages of starting work, earlier ages of retirement, longer vacations, and other results of economic growth that are valuable but are not measured in terms of money. This difficulty

is partly overcome by using still another measure, average output per hour of work. That average, too, may understate our real growth because as our incomes grow we spend more on services (education and medicine are examples) and other things for which measured productivity grows comparatively slowly. Thus the average may appear to grow more slowly or more rapidly merely because of shifts in consumption, not because of any real retardation or acceleration anywhere in the economy.

We shall present in a separate statement some basic facts about economic growth—what it is, how it is measured and the limitations of any measurement, what the record is, how it may be stimulated.

MAXIMUM EMPLOYMENT OPPORTUNITIES

For economic growth it is essential that our people, our machines and equipment, and our natural resources all have the fullest practicable opportunities for employment.

Not only is it important that they have maximum opportunities for employment, but also that they be employed efficiently. They must be used to produce more useful rather than less useful things, and outputs must be as large as possible in relation to inputs.

Finally, they must be employed under conditions of economic freedom. People must be free to choose for themselves among a variety of occupations, industries, areas, and jobs; free to decide whether to venture into a new business or risk their savings on a new idea; and free to choose according to their own tastes the ways in which they will spend their incomes after paying the taxes necessary to support essential public needs.

Even the ideas of maximum employment opportunities and of unemployment are not as simple as they sound. Much unemployment—sometimes nearly all of it, especially during recessions or in depressed areas—involves the hardships and lack of opportunity that we all associate with the word “unemployment.” Some unemployment, however, especially in prosperous times, represents people who have just recently made themselves available for work and have not yet found their first jobs, or people who have given up or declined jobs with confidence that they can get other jobs that will suit them better. This latter type of unemployment—which, paradoxical though it sounds, reflects breadth of opportunity, not hardship—accounts in part for the fact that no one who talks about “full employment” ever means “full” in the literal sense of 100 per cent. It also explains why maximum opportunities for employment is a more appropriate goal than simply maximum employment.

A separate statement will present information about employment—what is meant by “maximum” or “full” employment opportunities, various reasons for unemployment, the measurement of employment and unemployment, and related topics. An understanding of these matters is particularly important in considering the relation between maximum employment op-