



CONGRESSMAN'S REPORT

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The Silent Revolution in Economics I--Must We Have Boom and Bust?

Fundamental ideas and concepts held by most of mankind, or by a nation, rarely change. But sometimes they do. Kings once ruled empires, not by consent but, by "divine right." Men were once punished for denying the idea that the earth was flat. Fifty years ago Americans nearly all agreed that national security clearly required rejection of all alliances, international organizations and foreign wars.

Yet sooner or later all of these ideas were discarded by new knowledge and experience. In recent years another change -- just as revolutionary -- has been taking place. But for politicians this is a silent change which few admit or discuss. Yet the change is there just the same.

Perhaps I shouldn't talk about it either, but I'm going to. Here's the heart of this silent revolution:

** The old idea was that a sound and proper national government, desiring prosperity and sound money, ought to balance its budget each and every year.

** The new idea (clearly implied by two administrations and your Congress) is that even in time of prosperity a sound government, in certain circumstances, can and should incur deficits and increase the national debt for the overall good of business, labor and the country.

Few political leaders have yet dared to state the matter this bluntly. Why? Because it shocks many people, and it flies in the face of very basic American beliefs and traditions which I, along with most Americans, have always accepted. Yet strong evidence is accumulating that this new theory actually works and may be sound.

Let me dramatize the extent and nature of this "revolution in popular attitudes" with two examples:

1. In 1932, in a time of deep economic disaster, both presidential candidates, Hoover and Roosevelt, agreed that the federal government's single, most vital blow against the depression would be to balance the budget, even if higher taxes and less spending were required. (FDR repeatedly pledged a 25% cut in federal spending!) In 1964, in a time of record prosperity and a \$5 billion deficit, Republican candidate Goldwater

pledged 5 years of regular tax cuts, regardless of deficits, and Democrat Johnson pointed with pride to \$14 billion of tax cuts (he didn't mention the deficit) under his party's leadership, promising more of the same!

2. In one week of June 1965 the House of Representatives, with the budget admittedly out of balance and the economy booming, did two things: cut excise taxes \$5 billion, and raised the debt limit by a similar amount!

In my four years as a congressman I have turned out probably more reports on federal spending and budgeting than any other Member. I take great interest in the subject because of its vital implications for the future of all of us. Thus I feel compelled to face openly and to analyze this fundamental change which I see occurring.

Let me make it clear that I don't pretend to be an expert, to know all, or even very many, of the answers. I specifically do not present myself as an advocate of the "new economics." But I do suggest that when fundamental changes in government policy have occurred, they ought to be recognized, understood and discussed. If they are all wrong, our people ought to get busy and head them off.

In this and perhaps two subsequent reports I want to lay these ideas out on the table, dissect them, and study the arguments for and against. For the fact is that your government, with the support of leading elements in business, banking, economics and political science, is now operating on some new economic premises. Among the premises are these:

- * Whether we like it or not, our federal government's fiscal policy does affect substantially the profits made by businessmen, the wages they pay, the number of jobs available, and our standard of living. If we are wise, we can use these policies to prevent depressions, prolong economic expansion and promote general prosperity.

- * The old idea that depressions and recessions are as inevitable as earthquakes and the weather (that we must endure them!) is wrong; with modern knowledge we can eliminate depressions and delay or soften the impact of recessions.

- * A balanced federal budget is important, particularly in boom times with full employment, full demand and threatened inflation. But there are other considerations - i.e., the advantages of a prosperous and growing economy -- which may be more important.

- * A gradually increasing federal debt will not lead to inflation or national bankruptcy so long as our gross national product and population are increasing at a faster rate.

- * Debt -- for a nation or an individual -- is wrong if it damages or overburdens. But, for individuals or governments, responsible debt, properly used and managed, is a sound bet on the future and a tool for growth and prosperity.

* In certain instances a limited, deliberate cutting of federal taxes will not increase the federal deficit but will actually decrease it.

* Our free, competitive economy can outstrip any controlled or planned economy if we will but use the federal budget as a tool to stimulate or check the demand for America's goods and services.

MORE 'DANGEROUS NONSENSE'?

I can already hear the cries of outrage from many of my readers. They will go something like this:

"This is just more of that old 'funny money', 'spend yourselves rich' business. There is nothing new about these crazy ideas. They are just revivals of New Deal ideas which didn't work the first time. It's more of this insane nonsense of piling debt on our grandchildren so we can enjoy ourselves now. It's a sure recipe for disastrous inflation and national bankruptcy, and the day of reckoning will come sooner or later, and probably sooner."

Let me say quickly that 20 years ago I would have agreed with an of the objections just listed. Even four years ago when I came to Congress my first priority was to draft and introduce my flexible income tax proposal which included a mandatory budget balancing plan. As a new congressman I demanded an audience with Henry Fowler (now Secretary of the Treasury) and pressed my ideas.

Since that beginning I think I have learned a few things about federal financial policies. Yet I still don't know that I was wrong then, or that these newly-applied ideas are right. I will say that in 1965 they are being tried and they seem to be working. And I will say that almost every reputable economist, many leaders in banking and industry, and a majority of congressmen silently accept them. Because they are actually being tried, and because of the broader acceptance they are gaining, I think these ideas deserve your attention.

THE 1964 TAX CUT -- A CRUCIAL EXPERIMENT

To be sure, these ideas aren't "new" in one sense; similar suggestions have been heard for 30 or 40 years. I describe them as "new" because they now are being tried and used by our government. Not until last year had they been given any kind of test in times of prosperity. In 1964 the Congress decided to try a bold experiment proposed some months earlier by the late President Kennedy. Let's set the stage for his gamble and his strategy:

** Since our nation began we had had constant ups and downs in the business cycle. During the 111 years for which records are available, there had been 26 previous periods of expansion, each ending in a recession or depression. The average age of

these business booms at the time of collapse had been 2 1/2 years. Counting only peacetime expansions, the average had been only 26 months. Our last expansion, from 1958 to 1960, was about average -- 25 months.

** Each of these recessions and depressions had taken a heavy toll of jobs and profits and federal revenues. A recession is like an illness that "takes something out of you" that you never fully regain. A depression is like an even more severe case.

** We had had four recessions since World War II. The last one bottomed out in early 1961. We should have expected a new recession in late 1963 or early 1964.

With an expected recession only months away President Kennedy proposed the start of our boldest experiment in the "new economics." On top of a \$3 billion tax cut in the form of an investment credit and revised depreciation allowance, enacted in 1962, he proposed an \$11 billion income tax cut -- the largest in history. He offered this as a device for heading off the recession and continuing our economic advance. If the theory worked, it would mean, not a larger deficit, but in the end a smaller deficit than otherwise would have occurred.

THE RECESSION THAT DIDN'T HAPPEN

What happened? Here are the results:

** Instead of entering a recession in 1963 we are now in our 53rd month of continuous advance -- the longest advance in our peacetime history.

** Although federal taxes were cut a total of \$14 billion over a three-year period, they have not produced a \$14 billion increase in the deficit. We actually collected more revenue in the first quarter of this year than we did a year earlier in spite of the huge tax cut. Next year our revenues will rise \$8 billion in the face of still lower rates -- because the economy has grown that much.

** A million people have jobs today who would not have them if the recession had occurred.

** If that 1963 recession had occurred, our gross national product might now be \$610 billion instead of \$649 billion, an all-time high.

** Corporate profits have climbed to \$64 billion instead of dropping to about \$46 billion as a result of such a recession.

** Wages and salaries have risen to \$347 billion, compared with about \$327 billion if we had gone into a recession.

** Government experts believe that a recession might have caused a \$15 billion deficit in fiscal 1965. Instead the federal budget is now approaching balance.

We even took in \$1.4 billion more than the experts had expected in the first quarter of this year, proving that their predictions were on the conservative side.

THE EXCISE TAX CUT

A baseball manager who takes out his star pitcher in a tight eighth inning situation and then goes on to win can never prove that the star would not have won also. By the same token no one can ever prove conclusively that we wouldn't have had these advances without the '64 tax cut. But Congress -- and most of the business community -- believe that most or all of these gains were caused by the \$14 billion in tax cuts. In fact, Congress was so impressed by this performance that more of the same was called for and passed last month. With strong business support and by a vote of 401 to 6 the House sent the \$5 billion excise tax cut to the Senate, where it passed by a margin of 84 to 3.

Signed by the President just a few days ago, this new law is important to you for two reasons: 1) it will provide you with immediate savings on the things you buy, and 2) it will provide still further incentive to our economy, increasing business volume, creating more jobs and adding to corporate profits. If it works, and 485 Members of Congress think it will, it will be another example of the "new economics" aiding our economy.

EVERYONE BENEFITS FROM EXPANSION

When the economy slumps, most of us lose in some way or another. I certainly don't believe that the millennium is here, or that we'll never have another recession, but it now appears that we have at least delayed a recession and prolonged an advance. If nothing more, we have actually seen what a 4 1/2-year sustained advance can do for us as a people. In these 4 1/2 years:

- Our gross national product has expanded \$147 billion or nearly 30%. Even after adjusting for price changes this gain exceeds 22%.
- Our economic growth has averaged 5.1% a year, compared to 2.5% for the years 1953-60, when conventional economics was being practiced.
- Our production of automobiles and trucks has increased more than 100%.
- Television set production has doubled. Overall, manufacturing has increased 38%. Wages and salaries are up \$76 million, or 28%. Profits after taxes are up 87%. The number of jobs has risen 5.3 million, and unemployment has dropped 1.2 million.

Clearly, there was room for further expansion of our economy, and it appears these fiscal measures have paid off. The country is benefitting on two levels -- first, in a rising standard of living for our people, and secondly, in a greatly increased capacity to meet our federal obligations, including interest on the national debt. I will return to this latter point in [my next report](#).

THE TEST THAT COUNTS: DOES IT WORK?

Americans owe much of their economic success to their pragmatism. "Does the idea work?" This is the acid test in science or business or advertising. If it does work, it is used, no matter how strange or unorthodox it may seem at first.

Because the economic medicine now being tried conflicts with what appears to be established wisdom and common sense, let me draw some analogies to medicine and the space sciences -- fields where striking advances have been made in our lifetimes.

An orbiting astronaut desiring to return to earth doesn't (as might appear logical) point the capsule to earth and add power -- this will put him farther into space. A doctor trying to prevent polio also pursues a seemingly strange course -- he gives the child a tiny dose of the dreaded virus. Yet we have come to recognize that the complexities of space and the human body require such sophisticated solutions.

Our \$650 billion, competitive, free-enterprise economy--to me, one of the real wonders of the world--is probably more complicated than the problems we deal with in space or medicine. Ponder for a moment 190 million Americans and over a million corporations each making separate decisions about buying, selling, working, advertising, investing, building -- each decision affecting some of the other persons and corporations. Now think about all of these people acting through their national government, 50 state governments and thousands of local governments making decisions about spending, taxing, constructing highways and buildings, etc. Obviously such a complex economy may need some sophisticated attention, too.

Yet the study of this economy has had little attention. Economics has been known as the "dismal science" -- for it excites few youngsters or adults the way space science or medicine do. The man on the street, who readily accepts "crazy" procedures that work in space or medicine, imagines that "simple horse-sense" is all that is needed in dealing with a nation's economy.

But with something as important to all of us as this is, perhaps we can learn, and perhaps we are learning some new things. Perhaps 20th Century America, which intends to place men on the moon and has curbed many deadly diseases, transplanted human organs and performed open-heart surgery, can learn enough about this "dismal science" to lessen the impact of recession and depression. This is what is involved in the experiment now going on.

Sylvia Porter, the popular newspaper columnist who appears in several Arizona papers, is one of the enthusiastic advocates of these new ideas. In a recent column she made this observation:

"This change in so short a period is what is so remarkable. And long after today's budget statistics will have been forgotten in the archives, this revolution in attitudes will be helping our economy expand at a pace sufficient to absorb our swelling numbers of workers and to preserve America's unique system of private-public enterprise."

"YES, BUT...."

All right, many will say, the Kennedy-Johnson experiment seems to be producing more federal revenue, more jobs and profits, but there are some other, more important considerations. They might be expressed like this:

** "Won't all of this lead to inflation, which will eat up those profits, and higher paychecks, and lead to disaster as it has in every nation which ever flirted with this dangerous policy? A sound dollar is more important than this false prosperity."

** "In the name of common sense, how can we just keep on piling up more debt, year after year, without attempting to plan someday to reduce it or pay it off?"

** "What you are really talking about is a 'planned economy' which is simply communism or at least socialism. If an occasional depression is the price of our freedom, let's pay it."

These are serious questions, and they deserve serious answers. Those who advocate the economic experiments now underway believe there are valid and reassuring responses to each of them. We'll take them up in perhaps two more reports on this challenging subject.

A handwritten signature in cursive script, reading "Mervyn D. Adair". The signature is written in dark ink and has a long, sweeping tail that extends to the right.