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MAINTENANCE OF ECONOMIC STABILITY:
PRINCIPLES AND POLICIES

Dr. Janus Poppe

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Reviewed by Col R. W. Bergamyer, USAF on 23 March 1964.

INDUSTRIAL COLLEGE OF THE ARMED FORCES

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MAINTENANCE OF ECONOMIC STABILITY: PRINCIPLES AND POLICIES

29 October 1963

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COLONEL BERGAMYER: Good morning, gentlemen: During Unit I you probably were frustrated by your faculty moderator when on several occasions he cut short the beginning of the stimulating discussion on one of these topics.

Our objective in Unit I was to provide you with fundamentals and principles which are an essential background for the remaineder of your study in ICAF.

Today, with the introduction of Unit III, these economic problems and considerations become very much a part of your curriculum as you begin your study of economic policies for national strength.

The Unit is comprised of a study of 12 areas as shown on this slide. Although you have been assigned to a specific area of study, you will find that many are interrelated, and the deliberations of your particular section are likely to have an impact on another or possibly more study areas. All 12 sections have one thing in common. Each is assigned the task of making recommendations which the section believes would improve our national economic posture. Your Chairman will have more than a casual interest in the progress of this section, since he has the responsibility of reporting the section findings and recommendations as a formal OP.

Now the program. Our lecturers represent the most qualified people we could obtain to speak on a specific scope. During the lecture series you will be exposed to the views of industry, labor, and current and ex-governmental officials, and the possible divergent opinions should prove interesting.

The lecturers indicated in red on this slide are part of ICAF's general education program. However, Mr. Staats, whom you heard last Friday, and Mr. Bundy, whose lecture you will hear on 4 November, are closely alined to our Unit III scope.

Two seminars with expert panelists are scheduled for each section, and there are 10 section conferences. During the first 15 to 20 minutes of the section conferences you will discuss the preceding lecture or lectures, and after this you may remain convened or be excused to research your specific assignment at the discretion of your Chairman. These are the study periods. However, it is most likely that your Chairman will convene the section on the afternoons of the 14th and 15th in order to consider your minority objections or otherwise to attempt to form a consensus.

Next is the oral presentation program. OP groups 1, 2, and 3 comprise 13 individually researched presentations concerning subjects pertinent to the Unit. OP groups 4, 5, and 6 consist of the section findings and recommendations. These latter presentations will be 15 minutes in duration after which there will be a 5-minute question period.

Finally, during the first week of Unit IV, Drs. Poppe and Barrett will assume the role of the two-man council of economic advisers and will conduct a critique of your efforts.

To insure that you have a proper start on your assignment, Dr. Poppe will now bridge the gap between Units I and III and discuss the Maintenance of Economic Stabiliey: Principles and Policies.

Janus, will you help me?

DR. POPPE: Admiral Rose, Gentlemen: This is the first of a series of lectures pertaining to the economics of national security, and my task is to lay a foundation and to explain some of the theory underlying the policies for economic stabilization. I hope that the presentation will complement the subject area of our speakers to follow and that this morning's efforts will create a foundation on which to build further your insight in our free-enterprise system.

In previous lectures from this platform, economic stabilization was defined as involving those actions taken by a government or a community alone or in conjunction with other governments or communities which tend to prevent or to reduce excessive or unnecessary fluctuations in the conditions affecting the production, distribution, and consumption of wealth. In our context it means that the Government is aiming at what the economist calls a state of general equilibrium. The principal objective is to maintain economic stability at a high level of employment, thus preventing deflationary tendencies and unemployment, or inflationary pressures destroying the value of our Nation's currency.

To explain this further, I have to review some basic concepts, most of which are familiar to you. One is the gross national product, and gross national product, remember, is is the sum total of all goods and services produced over the period of one year at the prevailing market prices. This gross national product, thus the value of production in a nation, may be measured in two ways: one, by measuring the sum of income paid out as wages, rents, interest, and profits--these are the so-called factor costs--plus allowances for depreciation, indirect business taxes, and business transfer payments, which we refer to as the nonfactor costs. Or we may arrive at the gross national product by totalling the value of the end-product sales and adding to this figure the value of the net changes in inventories. End sales then consist of sales of finished goods to consumers, business, and government, including foreign governments.

Now, this last method is the prevailing one. It is computed under the responsibility of the National Income Division of the U. S. Department of Commerce. By reclassifying the various factor and nonfactor costs of the first definition by sector of the economy--that is by household, business, and government--we get a figure of the gross national income. Gross national income is at heart the sum of the various factor and nonfactor incomes generated by the process of production.

We also found that, if we added up the total value of wages, rent, interest, and profits, plus the allowances for the nonfactor costs, we obtained a figure for this gross national product. This reasoning, then, leads us to the basis for our conclusion that gross national income is really a measure of aggregate production while gross national product is a measure of spending in the economy by consumers, businesses--in the form of investments--and the Government, Federal, State, and local.

I have on the blackboard a horizontal axis on which we put the national income. We said that we can equate that to the volume of production in the economy. In the vertical axis we put the gross national product and we say that we may equate that to the volume of spending in the Nation. Spending is made up of consumption, investment, which is the spending by business, and the government spending.

Then I have a 45-degree line, which is the so-called equilibrium line, on any point, thus, on which we have the volume of spending equal to the volume of production.

I have further plotted on the graph the so-called consumption, plus investment, plus government spending, line, which is sloped in this way as a result of the so-called propensities to consume. This line, like the 45-degree line, income, would be equal to production with interest. You find thus that that is not the case at all times. This line thus indicates consumption, plus investment, plus government spending.

Now, at the level of full employment equilibrium--that is, the volume of production equals the volume of spending--and at the level of reasonably full employment, at that particular point, you find that the consumption, plus investment, plus government spending, is larger than the equilibrium income. Thus there is that amount of money being spent on this amount of production. That is too much money chasing too few goods. Then we speak of an inflationary gap.

When, on the other hand, if I transfer this line to here at the full employment equilibrium level, the volume of spending that is generated in the economy is thus less than the full employment production, then we have a so-called deflationary gap. And when we have a deflationary gap it means that there is too much of an amount of money available. That means that businesses will build up inventories. That means that businesses will start to curtail production. It means that they are laying off men and, as a result of laying off men, we begin to find that we are affecting the so-called total effective demand.

The total effective demand in a nation is the demand for goods and services and is not only the willingness but also the ability to buy, both by consumers and by business. Now, total effective demand thus is in existence and will have to be satisfied by the so-called total effective supply. Why? Supply is production, and production influences employment. So the total effective demand affects the volume of employment, and the total effective demand affecting the volume of employment in turn will influence the total volume of income in an economy.

It is logical that, if you have 60 million people employed, your income is smaller than if you have 70 million people employed. So the volume of income is directly related to the volume of employment. In turn income affects, in the first place, the so-called consumption expenditures. If you check your national income statistics you will find that when income rises consumption rises. It depends on what? It depends on, as we will see in a minute, the average propensity to consume and the marginal propensity to consume, the so-called propensities which are built into the Nation. Income also affects investment expenditures.

After we consume, what is left over from income is saving. Savings in turn become investments. Remember, in our society the savings function is done by the large volume of people. The investment function is done by the banks, the institutional investors, like insurance companies, et cetera, who make the investments.

Then it is easy to see that the consumption expenditures again affect the total effective demand. Now we have completed the so-called around-about system, and all our problems in economic stabilization are centered about the level of what we call general equilibrium, and a general equilibrium at the level that is high enough to maintain a level of full employment. Mind you, it is quite possible to have a general equilibrium situation and still have 10 or 12 million people unemployed, So the idea is to enter this income at a point at which we can bring up the level of income to where it is able to support a full employment situation.

Now, when we look at the consumption expenditures for a minute, we find that they are influenced in the first place by the so-called marginal propensities to consume and by the average propensities to consume. For instance, if you look at the average propensity to consume, which is really a ratio between consumption and income, you will find that in America right now it is about .94, meaning that 94 cents out of every dollar is spent on consumption. It is somewhat less for a nation like Scotland, .88. It's something more for a nation like India. It's practically .99. There are very little savings in India. There is no capital building. We find thus that the average propensity to consume affects consumption expenditures. The marginal propensity to consume also affects consumption expenditures. That relates really to what will be spent of additional income and a reserve of additional generation. So you will find that the marginal propensity to consume, which was defined as a ratio between a change in consumption and a change in income, plays a part when there is a changing economy, a dynamic economy, either upwards or downwards. We find thus that from the marginal propensity to consume we arrive at the multiplier. By definition, remember, the multiplier was a ratio between a change in income and a change in investment.Now, we could not use that particular formula that way, so we transferred it into a ratio between $\frac{1}{1 \text{ minus the marginal propensity to consume}}$, which we can find in the economy. We can statistically determine the marginal propensity to consume.

The multiplier, then, indicates what effect a change in investment will have on that national income. In other words, if the investment expectancies change we will have a multiple impact on this total effective demand and the income and the income to the total effective demand. This is a result, of course, of the slope of the consumption line.

When we look at the investment expenditures, we find that they are influenced in the first place by the so-called marginal efficiency of capital, and they are influenced by the interest rate, which I have here and will put on in a few minutes. Well, the marginal efficiency of capital thus is influenced by the replacement cost or supply price of capital assets, and is influenced by the expectation of profit yields. So, if I put the arrows like this we have this picture.

What is the marginal efficiency of capital, and why does it influence investment expenditures? Well, suppose that you are the owner of an apartment house and it cost you $25,000, and that you get a return of $2500 in the form of rents, let us say. There are four apartments in that particular building. Then we say that your reserve on investment is $2500. You divide that by 250 and that gives you 10 percent. We say that your yield on capital investment is 10 percent. The economist says that you have an efficiency of capital of 10 percent.

Now, suppose that an architect can prove to you that you can build a new apartment building for $20,000, and this also has four apartments. This also will realize $2500. Then you will now have a return on investment of $2500. You divide it by 200 and that gives you 12.5 percent. Your yield is now 12.5 percent. Your efficiency of capital is 12.5 percent, but your marginal efficiency of capital is 2.5 percent. We say that the marginal efficiency of capital is positive.

Now, whenever you have a marginal efficiency of capital that is positive, there is a tendency for money to flow in that particular industry. In the case of, let us say, an average return or efficiency of capital in steel it is 6 percent. Let us say in chemicals that it is 12 percent. You will find that money will flow into the chemical industry rather than into the steel industry, because the return on investments and the yields are higher.

But the marginal efficiency of capital in return is influenced by the replacement cost or supply price of capital assets. Suppose that there is a general prevalence and that one industry has a larger yield or a larger return. Then money will start to flow into that industry and in the process everything becomes more expensive. In building, the capital equipment will increase, your labor may increase, the bricks may be more expensive and raw material may be more expensive. As a result there is a tendency for the supply price to increase, and rather than your apartment building being $20,000 it gradually becomes $22,000, and $24,000, and finally you are back where you orinally were. Consequently, the marginal efficiency of capital is influenced by the replacement cost or the supply price of capital assets.

Then, the marginal efficiency of capital is also influenced by the expectation of profit yields. Suppose that you decide on or are considering the building of that apartment but you know that in the area where you are located there is only a 50 percent occupancy rate. Well, then, you'd know that you are not going to get this marginal efficiency of capital, because on the average 50 percent off means that rather than $2500 return it will be $1250, and that means there will be only a 6 percent yield. So, consequently, your expectation of profit yields is relatively low. Consequently, the marginal efficiency of capital in your judgment will be low. And, consequently, no investment expenditures will be made in that particular industry, and no funds will flow into that industry.

Then I have the investment expenditures influenced by the state of liquidity preference--well, certainly, first the rate of interest. What is the rate of interes? It is really a price paid for the use of money. So, consequently, when a business man wants to invest in building new plant and equipment, and the rate is 4 percent while before it was 6 percent, for him the price has gone down. Whenever there is a decrease in price there is always a tendency for more of the quantity to be purchased. So, when you have a rate of interest that decreases, then there is a tendency for investment expenditures to increase. That is why sometimes you have a decrease in the rate of interest for a specific purpose, and that influences investment expenditures and, through investment expenditures, the total effective demand. The interest rate in turn is influenced in the first place by the quantity of money, or we say sometimes the supply of money, and the state of liquidity preference, and there is also a third factor which is not only influenced by the interest rate, or the influence of the interest rate, but also influences the marginal efficiency of capital. This is the so-called loanable funds.

Let's take them one at a time. In the first place, the state of liquidity preference is inherent in the banking system mostly. When a banker wants to keep cash rather than make investments or rather than make loans on short-term notes, for working capital, or loans for longer-term investments, then we speak of a state of high liquidity preference. He'd rather have cash than investments. He is not willing to make money available. When that is the case we influence the rate of interest. What usually happens is that there is a short supply of money, which may thus in effect affect the rate of interest rate, which will go up and then will affect the level of expenditures, and expenditures will go down.

Now, this is the banker side of the story. We also have the supply of money, which is controlled by the Federal Reserve Board. By influencing the supply of money we can influence the rate of interest. You know, when we increase the quantity of money there is a tendency for interest rates to go down, for investment expenditures to go up, and thus for the total effective demand to increase. However, the quantity of money also will affect the loanable funds. For instance, the Federal Reserve Board influences the quantity of money. If the Federal Reserve Board, for instance, changes the reserve requirements and lowers them, then there are more loanable funds available to the commercial banks. Then the commercial banks, depending on their state of liquidity preference, may make the money available or not. Thus it is quite possible to frustrate a monetary policy.

The loanable funds are thus influenced not only by the Federal Reserve Bank but also by commercial banks, by so-called institutional investors, by operators of the money market, and even by households. All these factors play a part in whether or not loanable funds are available and whether or not the rate of interest is changed, and with the rate of interest the rate of expenditures.

This is really the underlying theory of determination on which most of our policies are based. At this time I always introduce a short note, by special request, on farm economics, because, as you know, a representative of the Department of Agriculture will be here in a couple of days to explain some of the farm economics.

We begin with the so-called law of diminishing returns graph, which indicates that when you change one or more factors of production you increase output, reach a maximum, and then decrease--have a decreasing state of effect.

In agriculture we are operating, furthermore, under conditions of so-called perfectly inelastic demands. From your economics course you know that that will cause a so-called vertical demand curve or a vertical supply curve.

Then I try to fit this in with the supply picture, the surplus picture of the agricultural problem. I relate that to the law of diminishing returns. Then, like I have the arrows over there, I have this particular reference from supply to the law of diminishing returns. It all gets into picture or into phase, and when you turn it around you see that it is a WAC taking a bath in her helmet.

Well--back to work. The next question is thus: What about the policies? Remember, before you execute policies you must have a line of theory. Let's begin with the fiscal policies presently in operation. I'll take this off here. In the first place you may have the policy whereby we keep the government expenditures the same but we reduce taxes or we increase what we call the transfer payments. This is the situation that we are looking at at the present time. What we are doing is, we keep the government expenditures approximately the same. We try to reduce taxes, and, for instance, by reducing them, the tax law will pass, and, for instance, possibly $10 to #11 billion will be made available to the consuming public, about $8 billion for consumption and $2 or $3 billion to corporations, and in return the corporations will make it available in dividends. We are thus affecting the consumption aspect of the spending. That has a tendency for this line to go up.

Now, if we were operating under the conditions of full employment, we would have an inflationary gap. Since we do not have a situation of full employment, we thus assume that the volume of income will increase and consequently the volume of employment will increase. I am just saying that will do it. At this point I am pointing out statistics.

The other part is the increase of transfer payments, whereby we try to bring more people into the social security programs. We find that in case of a downward trend in employment we thus do not lose altogether their consumption power.

A second way is to change the taxes and the government expenditures simultaneously. You probably heard Congressman Byrnes when he talked. He explained that he doesn't mind, nor does a large sector of Congress mind, a tax decrease, provided that we have a government expenditure decrease going with it. He is insisting on a more or less balanced budget.

Well, when that is the case you find that consumption, let us say, will increase as the result of a tax cut. At the same time government expenditures will increase. Thus it will have an offsetting effect. Little will happen to this particular line. You have these two offsetting aspects, and you can expect no result in your unemployment situation.

Or you may increase the government expenditures and keep taxes constant. When you do that, for instance, you again go into a situation of deficit spending. This will increase the national debt. Giving thus the consumption a push, you now give the government expenditures a push, and you will find that most of the efforts will go into the so-called public works. This will also affect this line. It will go upward, and this will influence the total effective demand.

In the last one, then, you raise the taxes and the government expenditures equally. This is, under certain conditions of inflation, a deflationary measure. You have to make up your mind which of the two will have the greater impact on the total effective demand.

Then I have some of the monetary policies. In the first place, there are the open market operations. Open market operations influence the quantity of money. In other words, by engaging in the open market, by either selling or purchasing, we can influence the volume of demand deposits and we can thus influence the volume of credit available to the economy . We can influence the volume of interest, the rate of interest, and the volume of investment.

We can change the legal reserve requirement. If you change the legal reserve requirement, if you lower the legal reserve requirement, you directly affect the loanable funds available. In other words, through the loanable funds you again have changed the rate of interest. The discount rate makes it easier or more difficult for the commercial banks to get additional funds for making money available. Then there is the question of marginal requirements which are affecting the stock market so much, and the question of moral suasion. And under certain conditions you may have the question of consumer and real estate credit, whereby we try, through the banking system, to affect the volume as well as the quality of credit.

Some of the other stabilizers that are available are, first, the automatic stabilizers, of which we know the farm price supports which give us a sustaining farm income and purchasing power in the farming sector. They influence the volume of consumption as well as investment on certain types of equipment. We have a progressive tax system, automatic to the extent that if people get unemployed they lose income and consequently they fall into a different tax bracket, so they will proportionately pay less tax and more is kept in the hands of the people, so that they are able to sustain their purchasing power somewhat. We may have unemployment and relief payments. You realize that at one time there was no such provision and that the moment a man became unemployed he had to rely on his savings, and when his savings were gone he had no purchasing power at all. This had a severe impact on the consumption aspect of the problem.

These are the automatic stabilizers. Then we may have public works. I will put that here. These will affect directly the volume of investment as well as the government expenditures and consumption. You may have some of the direct controls like price control, rent control, wage control, profit control, manpower control, and rationing, all in times of emergency--affecting what? The total volume of spending. Usually these are used for attempting to hold inflation, the inflation as a result of too many goods or too much money for too few goods.

Now, I have focused most of my discussion on the problems of deflation, because that is the problem facing us today--not because I am saying so but because mostly the outstanding economists and even the President of the United States have said so. Unemployment, then, involves human beings. It means borrowing money and going into debt. When the relief cutoff date comes it means going hungry. It is also a shameful waste of resources.

A volume of investment high enough to sustain full employment should be maintained, and the prime mover in determining the volume of investment in our economy is private business. It is important to note that, if the volume of investment is not high enough to maintain high employment levels, the Government should step in, because it is the only authority that can create policies to supplement the going rate of investment.

In other words, when business maintains a level of investment that is high enough to maintain full employment, there is no room for government interference. Only when things go wrong and it is noticed that tremendous resources are lying idle should the Government step in.

It is this feature of government interference that is considered distasteful and socialistic in some quarters. With the evolution of our industrial economy, the role of government in regulating and influencing our economy to achieve social and economic ends has gained, however, general acceptance.

The observable consequence of the uncompensated depression of the 1930's was nothing short of tragic by standards that may be considered objective. Practically everywhere in the world there occurred at that time a shift toward political radicalism of some sort, and, under contemporary conditions, failure of moderate groups to take appropriate fiscal action in the face of a deepening depression is almost certain to lead to the passing of power to groups that do take such action, but at the same time sell the country an immoderate and radical political and economic program.

The next three weeks, therefore, should be very interesting to you, because in this period economics will come to life. There will be some frustrations in trying to grasp the magnitude of the problem, but don't despair.

I would like to end the presentation with a poem handed to me by one of the students about three years ago, entitled, "The Saga of Seminar One."

> We entered with enthusiasm the seminar at hand
> For the subject was intriguing--topics anything but bland.
> With the innocence of lovers strolling down a garden path
> We walked into the middle of an economic wrath.
> We sought to find a key to the prophecy of things

That would enable us to match the wealth of legendary kings.
Just ride the business cycle to the bottom of the curve
Then apply the money policy and a dash of Federal Reserve
Take a gander at the forecast and the index of the trade
Exercise a little liaison, and, boy, you've got it made.
It all seemed just too easy, but, alas, it wasn't so
For we could never find the handle to make the damn thing go!

Here is a poem that appeared in the London Economist a while ago. This is called "The Thick End of the Dinosaur or Mister Facing Both Ways." It said:

The creature had two sets of brains,
One in his head, the usual place,
The other at his spinal base.
Thus he could reason anteriori as well as aposteriori.
No problem bothered him a bit,
He made both head and tail of it.
If one brain found the pressure strong
It merely passed ideas along.
If something irked the forward mind
It was relegated to the brain behind.

Sometimes I feel this is the case with economics, too. All right. Any questions?

QUESTION: Dr. Poppe, could you tell us how the Soviet method of calculating GNP differs with our own? We are going to have an oral presentation on this subject.

DR. POPPE: Yes, I know. I was just thinking how I could give a very short answer. I think I wouldn't be able to justify it without saying that the main thing you must remember is that the Soviets, as far as I know, do not include the services part. This is a very complicated aspect, and it needs some time, really, to explain it.

QUESTION: Dr. Poppe, accepting the Administration's objective as valid, would you explain your fancy curve there? Why would it not be better to take one of these other courses of action, such as increasing government spending and leaving taxes the same?

DR. POPPE: When you want to influence the consumption investment and government expenditures line, and you want to bring it up and reach a situation or a position of general equilibrium, with full employment, you can do that by influencing consumption. You also can do it by affecting investment. You can do it by having greater government expenditures, or you can have a combination.

Now, the question arises: Should we have, rather than a proposed tax cut, maybe extended or increased public works, and thus benefit our society? It has been maintained that we have private affluency and public starvation. There is an element of truth in that. The question is: Shouldn't we spend more money on harbors, road systems? Our present plans run only to 1975. Shouldn't we spend more money on schools, and things like that, and in that way thus induce a greater level of spending and a greater level of employment?

Now, we have chosen the tax-reduction approach. There is a reason for that. Public works are not too much in favor with Congress, as such. They would be very difficult to sell, because they involve more or less a direct increase of the national debt, direct deficits. You will find that many members of Congress earnestly believe that we should have a balanced budget rather than engaging in a deficit, which we are doing now.

But, being a practical man, Mr. Kennedy must realize that something has to be done. He wants to attempt to lick the unemployment situation by, in the first place, giving business a break. Last year we got the 7 percent tax credit and a new set of rules for depreciation, and in that way we influenced the volume of investment. We made the climate better for business to operate in.

This year it is hoped that the tax bill will pass and that some of the tax benefits will thus become available in the form of consumption, and that that will increase the total effective demand and thus the volume of employment.

It's an approach. It's a set of alternatives. We are doing it that way. Personally, I would rather see no tax cut and increased public works expenditures.

QUESTION: With this idea of trying to attack unemployment and the type of unemployment we have--the poorly trained, the Negro, the marginal, and the various unemployments--the increased expenditures that will be produced by the tax reduction, is it not likely, will go into more work for the people who are working, and the electronics sales, and so forth, are not going to help the marginal worker who is in Alabama.

DR. POPPE: That's correct. In other words, the areas, or the pockets, of unemployment probably need a different approach. Now, an attempt is made by reeducating or retraining men--that's one; two, also by educating youngsters toward a vocation or a profession. Undoubtedly, there will be some other measures necessary for the underdeveloped areas or pockets of permanent and chronic unemployment in America. Something else will have to be done about this. I think you are correct in your observation.

QUESTION: Doctor, you say we are in a period of deflation or that the tendencies are there. Just looking around, it appears that we are in a period of unprecedented prosperity, and the stock market is going up. All these indicators seem to be there to show that we may enter into an inflationary period. Will you comment on this, please?

DR. POPPE: Yes. It's true that there are tendencies of inflation as well as of deflation. When we look at the inflation, we have had wholesale prices that remained relatively stable, and retail prices that have gone up somewhat. The inflation may be somewhat hidden, rather than in outright evidence. I remember we discussed that during our Unit I. I pointed out at that time that I bought a house four years ago, and the rafters in that house were 6x2. I visited a new house that my neighbor was building, and his rafters now were 2 x 4, for a similar type house. And one of the gentlemen in my class was building a house at the time, at least 2 months ago, and he got very worried. He came back the next morning and he said, "Guess what. My rafters are 2x2." Well, he paid the same price. Sometimes you hear it said that our depression is of the Cadillac type. I would like to point out, though, that in 1962 close to 12 million people were affected by one type or another form of unemployment. There were about 12 million people who received less than $2400 a year, which is not very much.

In other words, you see, by being unemployed only 2, 3, or 4 months during the year, there is a tremendous decrease in income and thus in spending power. Although this is not a depression of the type we had in the thirties, whereby we had close to 25 percent of our labor force unemployed, it is true that considerable percentages of our labor force are involved in some form of unemployment.

Now, the unemployment picture is more serious among the young people coming into the labor force, and that is a great challenge, really. What are we going to do in finding for those young men oppertunities and preparing them to become active members of our society? We should attempt to get a job for everyone who is willing to work, because unemployment is a tremendous and tragic waste of this resource. There is no need for it, really. Why don't we tackle it, take the bull by the horns? For that we need an enlightened Congress more than anything else.

QUESTION: Doctor, how good is our unemployment information? In other words, we are basing a lot of proposals and estimates on it. How good is it?

DR. POPPE: There are many weaknesses in determining the volume of unemployment. We had a special committee, you remember. Dr. Gainsbrugh talked to us in the first unit. He was a member of that committee. They stated that, although we have the best statistics in the world, and the unemployment figures, as determined by our authorities, are sincere and honest, they can be improved. But, whatever you do, there will always be weaknesses in the information.

Right now we interview once a month 35,000 familiar. This is a sample on which we determine our unemployment statistics. On that basis, then, we make them available. It is not ideal, but it is good enough to operate with. Let's say it that way. But there are indeed many weaknesses in it. Here again, you know, sometimes you must operate with the things you have.

The next will be the last question.

QUESTION: How valid is the 4 percent goal that we have set for ourselves? Is this realistic?

DR. POPPE: It's a value judgment, I think. In other words, it has been maintained that absolutely full employment is undesirable, because by doing that you would have constant pressure on wages and thus inflationary tendencies. Then the next question is: What is full employment? Is it possible to define it? No. That's why we say reasonably full employment. In other words, we attempt to then say: 'Well, what is reasonable?' Anywhere from 3 to 5 percent. It depends. If you talk to a labor leader, he will say 3 percent. If you talk to, let us say, a member of Congress, he will say, "Well, 5 percent is good enough." So there is no exact figure.

But one thing is sure. Don't let it run and become worse and worse, running into 6, 7, 8, or 9 percent. We should do something about it in the beginning, now, not when the situation is very bad and severe. Then it is too late. And there is no reason for it.

One more question.

QUESTION: Why is it in England, then, that a figure of 1.8 or less than 2 percent is maximum unemployment? Your figure is in the neighborhood of 4 percent.

DR. POPPE: Probably because the definition of unemployment is different in England that it is over here. In other words, the English have been criticising us somewhat as to what we define to be an unemployment situation and who is unemployed. That's probably the reason for the difference. O.K.

Thank you.