The Realm of the Red Queen

"A slow sort of country," said the Queen. "Now, here, you see, it takes all the running you can do to keep in the same place. If you want to get somewhere else, you must run twice as fast as that!"

LEWIS CARROLL
Through the Looking Glass

Ours is an age when everyone seems driven by an uncontrollable urge to reduce the world to a mass of figures. We count and weigh and measure everything in sight, and then we add them together, multiply and divide them, and otherwise manipulate them in many dark and devious ways in the hope of thereby achieving some deeper understanding of our world. We are especially prone to do this in economic matters. The imposing facade of statistical aggregates that emerges from this sort of business we treat as if it were a mirror reflecting the face of economic reality.

A good many years ago a little girl named Alice had some experience with mirrors when she made her now-famous journey "through the looking glass." She found that the world on the far side was very different from the one she had just left. If we were to peep behind our statistical looking glass we too might encounter a world as unfamiliar as Alice's.

The end of one year and the beginning of another is as good a time as any to try this sort of experiment, especially when the year just ended has brought to a close a decade of unprecedented prosperity as revealed in nearly every statistical measure at our disposal. Let us, then, take a brief journey through our own peculiar looking glass.

Look, for example, at the gross national product. This is our greatest aggregate. It purports to express the value of the economy's total output of goods and services in terms of current prices. It is a mirror that may be said to reflect the economy as a whole. As it increases, well-being is assumed to increase, and when it decreases, we become apprehensive and fearful of the future. In 1946, the year after World War II ended, the gross national product had been 209.2 billion dollars. An estimate for 1955 places it at 387.4 billion dollars—178.2 billion dollars more than the 1946 amount, or an increase of 85 percent.

Such a performance by the economy is certainly something to be elated about. It may occur to us, however, that economic well-being is perhaps not best represented by such an aggregate, no matter how impressively large it may be. The aggregate merely represents the total volume of goods and services available to people, but economic well-being depends upon how many people have to share the total. We remember, therefore, that between 1946 and 1955 the population sharing the gross national product increased by about 24 million persons. Taking the increase in population into account, then, gross national product per person increased from $1,479.6 in 1946 to approximately $2,400.0 in 1955—an increase of 62 percent in the per-capita figure, compared with 85 percent in the aggregate.

But this is not the end of the story. The dollars in terms of which the gross national product is stated are not of uniform purchasing power. Because of changes in prices, dollars buy more or less at one time than they do at another. To get a better idea of what that 62-percent increase in gross national product per capita means, we have to get rid of the influence of changing prices. After all, prices in 1955 were a great deal higher than they were in 1946. To see what really happened we must deflate the gross national product per-capita figure by the index of consumer prices (1947-49=100). When we do this our figures rise from $1,774.1 per capita in 1946 to $2,038.8 in 1955—an increase of about 15 percent. A 15-percent increase in real per-capita gross national product is a far cry from the 85-percent increase in the aggregate with which we started.

Another aggregate with which we habitually deal is "personal income." This, too, must be corrected for price changes and also reduced to a per-capita basis if we are to see what it means in terms of individual economic well-being. Here, however, we must make one further adjustment. Account must be taken of the taxes that individuals pay to the government. What is left of "personal income" after taxes have been paid is called "personal disposable income." This is the amount people can spend or save at their discretion. Personal disposable income increased in the aggregate 159.2 billion dollars in 1946 to approximately 269.0 billion in 1955 (a preliminary calculation). This was an increase of 69 percent. The per-capita figure went from $1,126.0 in 1946 to about $1,621.0 in 1955—an increase of 44 percent and the deflated per-capita figure rose from $1,350.1 in 1946 to $1,415.7 in 1955—an increase of only 5 percent.

This increase of 5 percent in real per-capita disposable income seems to be a very small improvement in the level of economic well-being after a decade of Herculean effort. It also seems to belie what we see about us. People certainly seem better off than they were in 1946 by more than this figure seems to indicate.

They were, indeed, better off. Personal consumption expenditures in the aggregate in 1955 were nearly double what they had been in 1946. On a per-capita basis they were 78 percent greater in 1955, and on a deflated per-capita basis they were 8 percent greater.

The apparent miracle of being able to spend 8 percent more per capita in real terms while receiving only 5 percent more real income has two explanations. One is a decreased rate of savings. Per-capita savings in 1955 were little more than they had been in 1946 and were lower than any year since 1951. The other explanation is the great increase in consumer credit outstanding which grew from $59.3 per-capita in 1946 to $209.6 in 1955, and

the increase in mortgage credit from $295.6 per capita in 1946 to $764.2 per capita in 1955.

This happy arrangement that allows one to increase his present consumption of goods without any commensurate increase in his present income simply by giving liens against income that has not yet been earned, is, under certain circumstances, a powerful and salutary stimulus and support to the economy. Under other circumstances, however, especially when the productive facilities of the country are already being used at or near capacity, reckless spending against future income can be very dangerous. It tends to raise prices without giving anyone any more real income. It discourages frugality and saving by over-stimulating the consumption of goods and the resources that go into them.

And then there is another danger: Lenders have a curious interest in being repaid. When liens against future income increase much faster than current income, the burden of making repayment becomes ever greater, even assuming that the consumer's optimism regarding the stability of his income is fully justified. If and when repayments on past borrowings overtake or exceed the extension of new credit, the stimulation that this factor has been giving to the economy ceases. The flush of spurious prosperity fades from the face of the consumer and he is lucky if he finds himself no worse off than he was before his recent jag. It would be well if the consumer himself would realize his danger before it is too late. Failing that, however, lenders would be well advised to do what they can to prevent the consumer from getting himself into such a predicament, for in saving the consumer the lender may also be saving himself from serious trouble.

When one probes behind the distortions arising from price changes, a growing population, and an excessive use of credit, the thing that strikes one most forcibly in the record of the past ten years is not how much better off the individual was in 1955 than in 1946, but rather how little improvement had been made in his position. It is evident that a nation can experience an extraordinarily high level of business activity without much improvement in the status of the individual if the fruits of that activity have to be divided out among a rapidly growing number of people.

This, of course, has been the case in recent years in the United States. The population statisticians who, before the second World War, had been looking for an early approach to a maximum population of 175 million have had their calculations completely upset by the war and postwar behavior of the population figures.

Between 1900 and 1950 the population of the United States increased at the rate of 1.4 percent a year. Between 1950 and 1955, however, the rate of increase was 1.7 percent a year. This rate of increase may not seem alarming on the face of it, but it is higher than the world average (1.3 percent) and it is even higher than that of India (1.4 percent), a country often associated in our minds with ideas of over-population. Our rate of increase, indeed, is higher than that of any western European nation. It is five times higher than that of the United Kingdom, for example, and nineteen times as high as Austria's.

Population increase includes the excess of births over deaths as well as net immigration. Looking only at the birth rate, however, the United States has the greatest of any highly developed nation in the world. It now stands at 25 per thousand population. In comparison, Italy—a country suffering from chronic overcrowding—had a birth rate of only 23.5 in 1940 and now has an even lower rate—17.6 per thousand.

Thus it comes about that instead of leveling off at a maximum of 175 million, our population is quite likely to exceed the 250 million mark within the next forty-five or fifty years if our present explosive birth rate continues and if medical science continues to increase life expectancy.

In simple societies where it does not take much to support an individual, an increase in population is nothing to be concerned about. In a society such as ours, however, where there is a high standard of living and where that standard is supported only in virtue of a tremendous per-capita investment in capital equipment, a rapid increase in population can create serious problems. The imperious necessities of consumption will tend constantly to thwart the provision of the ever-larger savings needed to supply the growing population with at least the same complement of tools and machines per capita that had formerly been available to them. Unless we use to the utmost all the machinery at our disposal for discouraging present consumption in favor of saving and investment in new plant and equipment, we may find that our growing population is gradually impoverishing us and not enriching us, as many suppose. We may, indeed, already have entered the realm of the Red Queen that Alice discovered on her journey "through the looking glass." In this new year of 1956 it now takes all the running we can do to stay in the same place. If we are to get somewhere else—if we are to make further improvement in the economic well-being of the individual in the face of a rapidly increasing population —we shall have to run twice as fast as that.

To do so will require a revival of some ancient virtues on the part of all of us—frugality and self-denial when confronted by the blandishments of a myriad of new gadgets clamoring for our attention and our money. It will require, too, exceptional wisdom on the part of the managers of our fiscal and monetary affairs, and a large measure of good luck besides, for them to influence economic activity in such a way that it will not merely serve to expand statistical aggregates, but will result in a real and not an illusory improvement in the economic well-being of the average American.

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