

FROM:
THE AMERICAN BANKERS ASSOCIATION
THE NEWS BUREAU
George J. Kelly, Director
12 East 36 St., New York 16, N. Y.
1/9/63

RELEASED FOR 1:00 P.M.
FRIDAY, JANUARY 11, 1963

ADDRESS OF M. MONROE KIMBREL

President of The American Bankers Association, before the Atlanta Lions Club, Dinkler Plaza Hotel, Atlanta, Georgia, Friday Noon, January 11, 1963. Mr. Kimbrel is chairman of the board of the First National Bank, Thomson, Georgia.

The 88th Congress of the United States convened this week in Washington. Naturally, the forecasters have been gazing into their crystal balls and speculating about what we can expect from this session. The consensus seems to be that the most important issue facing Congress is the question of a tax cut. Many people consider the question briefly and conclude that of course we should have a tax cut. These people feel that the issue is "cut and dried"; they wonder why taxes shouldn't be reduced immediately.

But the questioning process cannot end with "should we have a tax cut?" That is really only the first of many questions that our congressmen will have to consider. Here are some of the others:

Should taxes be cut immediately? Should the cut become effective in July or early in 1964? Should any reduction be spread over a two- or three-year period? Who should receive the major benefits of a reduction--business or individuals? Should the reduction be concentrated in the lower income groups or given to all individuals? How big a cut? If a small cut will spur the economy, won't a larger cut give even greater impetus? How much of a budget deficit will we have with a tax cut? Should a tax cut be accompanied by a cut in government spending? How will a tax cut affect our balance of payments position? Should a tax cut be tied into tax reforms? That is a nice way of saying closing some of the tax loopholes. And, as you know, loopholes are how someone else gets away with not paying taxes. If reforms are made, what types would be considered?

(More)

Now I didn't mean to play 20 questions with you today. Nor do I plan to attempt to answer the questions I have posed. But what I do want to point out is that the matter of a tax cut is much more complicated than most people are willing to admit. Congress will have to consider many economic factors before arriving at a decision. If you are going to be of assistance to your own congressman, who is representing your views, you are going to have to go beyond the surface in your considerations. You cannot afford to stop at the superficial implications.

I decided to begin this discussion of the need for economic understanding with some comments on the tax question for two reasons: First, taxes have a direct bearing on our pocketbooks; and, naturally, when it comes to money we must pay or money we can save, we are all directly interested. My second reason is that whether you know it or not, the points I raised in the questions are all matters of economic consideration. Some people immediately become defensive when the subject of economics is mentioned, but they are willing to discuss specific factors which are essentially economic factors. But as Shakespeare said, "A rose by any other name . . ." In other words, we all discuss economic matters every day regardless of what we call them.

The subject of taxes makes us all perk up and listen because it can be translated very readily into dollars and cents as far as we are concerned. But whether we are conscious of it or not, there are few issues discussed in Washington that do not have a bearing on our pocketbooks. We could have started this discussion with the subject of foreign aid or subsidies for farmers or aid to education or any other topic you might suggest--and still find ourselves discussing economic factors.

Why is it important for us to try to understand these economic issues? This question was answered recently by Secretary of Commerce Luther H. Hodges. He

(More)

said, "Americans can--and must--learn their economic ABC's, for at the bottom the case for economics is the case for democracy itself--government by the people. If a democracy is to cope effectively with economic issues, the people must understand."

The general level of understanding of economic issues by the public is appallingly low.

A recent unpublished survey of a representative cross section of the American public showed these results:

1. Five Americans out of six think that our economy is growing as fast as it should.
2. Over 40 per cent think rising interest rates are inflationary.
3. Only one person out of three thinks that investment in factories and machinery makes a major contribution to economic growth.
4. More than half the adult population believes that net profits of most business firms are equal to or exceed total wages paid, and less than one-tenth knows that payrolls substantially exceed profits.
5. About 40 per cent believe that business profits have been too high in recent years, and less than 2 per cent think they have been too low.

These figures are startling. They give us an indication of how little our economic system is understood by the public. Yet these people as voters share in the direction of our economy, and their attitudes and behavior actually determine the nation's economic progress.

Surveys such as this prompted Donald I. Rogers, business and financial editor of the "New York Herald Tribune," to write:

The greatest area of ignorance in America today is in economics. That's why voters are so easily seduced by outrageous campaign promises. Merely electing a man to the House or Senate does not automatically endow him with economic sophistication.

Government actions which affect the economy are often taken in response to notions and prejudices of the voters; therefore, economic illiteracy becomes a serious factor in the progress--or lack of it--of our nation.

(More)

The situation is not much better with college students.

Some 4,500 freshmen and seniors at 12 midwestern liberal arts colleges were recently questioned in a survey by the Opinion Research Corporation, Princeton, N. J.

Here are a few of the findings:

The typical freshman enters college knowing nothing about the basic facts and principles of our economic system.

Only a minority of college students take even a little economics.

After four years of college, seniors without economics training show very little improvement over freshmen.

Of the seniors who did not take economics, only 34 per cent knew that the most practical way for workers to improve their standard of living is to produce more.

Prospective teachers were found among the weakest groups, with only one in five taking courses in economics.

Going to the next level, the New York State Bankers Association recently completed a survey of the teaching of economics in 130 high schools outside New York City.

The survey showed that very few high school students take courses in economics. Teachers of social studies are not prepared to teach economics. In courses in American history or problems in democracy, very little attention is paid to economic reasoning, and instruction on financial institutions is largely descriptive and does not require any thinking on the part of the students.

Against this background is it any wonder that the public does not understand basic economics? This void--economic illiteracy--could easily lead to the breakdown of our way of life. For this reason it should be attacked in the same manner that we would attack a plague.

Fortunately, for those who are interested in developing their own understanding of the economic issues of the day, the newspapers are giving much wider coverage to these subjects. It used to be that economic and financial news

(More)

was relegated to the business and financial section. However, today it is almost impossible to pick up a newspaper that does not have some economic information on the front page.

Perhaps the chronic deficits in our international balance of payments have done more than any other single item to focus national attention on matters of economic policy. The simple fact is that we as a nation are spending, lending, and investing more money abroad than foreigners are spending here. As foreign holdings of dollars increase, some of the dollars are converted to gold. Our gold supply has been dwindling, and yet the outflow of dollars continues. This problem provides the backdrop for every economic decision this country makes, whether on the domestic or international level.

For example, consider the question of interest rates. With our present rate of unemployment, we would normally expect the Federal Reserve to make money easy to spur investment and create new jobs. However, if interest rates are lowered, capital funds will flow out of the country to markets where the return is higher. This would worsen the imbalance. Or, consider our military commitments: When we send troops overseas, it costs money to maintain them. This also adds to the outflow of dollars. Foreign aid, which is not spent in this country, is another item that contributes to our imbalance.

Many steps have been taken to bring our payments into equilibrium. Several nations have been persuaded to make prepayments on debts they owe to the United States. Some countries have been purchasing military equipment in this country to offset the dollars we spend maintaining troops in those countries. Most of our foreign aid dollars are furnished on the condition that they be spent here in the United States.

Government officials have been wrestling with this problem for several years. Last summer there was much optimism expressed about the progress that was

(More)

being made. Officials estimated that the deficit would be cut to \$1.5-billion during 1962 and might be eliminated by the end of 1963. Yet, preliminary reports show the 1962 deficit was about \$2-billion.

This explanation hardly does justice to our payments problem. But it does point out that we have tried the easy solutions without too much success and the basic problem is still with us. In fact, from now on solutions will be more difficult and, perhaps, more painful. Those of you who have kept pace with these developments are aware of the serious implications and can more readily understand possible solutions when they are posed. For example, can you imagine the reaction from someone who has not followed these developments, if the United States decided the only way to solve the problem was to bring home all troops from overseas? Or what if the United States put a strict curb on imports? Or what would the reaction be if Americans were told they could not take more than a certain amount of money with them when they went overseas? Or what if they were told that Americans could no longer invest money in foreign securities?

Unless the situation changes drastically, some of these proposals or other similarly repugnant ones might someday be necessary to correct the basic imbalance. Needless to say, they would come as a shock to anyone who has not attempted to understand the dimensions of the problem.

Payments problems are relatively new to this country. Many other countries that rely on exports for their principal source of income have been facing this situation for years. That is why an English manufacturer or a German businessman is likely to know much more about the problem than his American counterpart. I think you will agree, however, that problems of this nature cannot be solved unless we all attempt to understand the basic economic factors involved.

(More)

A good starting point for us all in grasping a better understanding of economic issues is to make sure that we don't allow ourselves to be content with just examining the superficial aspects of an issue. For most issues, like the tax question, have any number of underlying considerations.

In closing, let me urge you to make an effort to dig into economic issues and appraise all the facts before taking a position. When you have made up your mind, let your representatives know why you support or oppose specific measures. Your opinions are important to them; they want facts and information to support their decisions. And by communicating with them, you will also be playing a greater role in our democratic process.

#