Research Department
Federal Reserve
Bank of
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FRBSF Weekly Letter

Tired Old Economics

"I'm tired of listening to economists."
— Senator Henry Jackson (Washington).

"We need a new, fresh, buoyant, forward-looking economics to replace the tired old economics telling us we can't do the things we want to do — the things we *have* to do." — The late Senator Hubert Humphrey (Minnesota).

What can a tired old economist answer? The tired old 50- or even 75-minute lectures about Supply and Demand won't do, with or without diagrams and mathematics. Neither will fresh, buoyant jargon about propensities, elasticities, multipliers, trade-offs, and even rational expectations. Have we anything better?

Perhaps only in the back-handed sense of warning against something worse, but let us see. The best this tired old economist can do is to outline a few of the most important economic policy dilemmas that make policy advising as hard as it is, and confine so many of us to careers of "academic irresponsibility" or as "economic attorneys" and "kept economists" for some company, bureau, industry, or union.

No easy solutions

I'll admit in advance my lack of any easy or painless solution to any of them. (The policy prescriptions of tired old economists remind me unpleasantly of dentistry and surgery before anesthesia, and economic anesthesia is still in its infancy!) But what about the new, fresh, buoyant, forward-looking economists? What alternatives do they have to offer? Income policies, social contracts, and rational planning, of course. But such solutions hope for 100 percent agreement, not only of the "statesmen" at the top but of the rank and file on the shop floor or equivalent. For example, no workmen strike for higher than planned wages. (Ask the British about that!) No business man, no farmers, no landlords evade, violate, or strike against any planned prices, planned rents, planned controls, planned rationing systems. If sufficient agreement about the plan is not forthcoming, or the rank and file revolts against "its" leadership, the next step is a monopoly of the media (press, radio, TV, wall posters, bumper stickers) to brainwash objectors into compliance. If that fails too, bring on the Man on Horseback (In plane? In tank?) with supporting bureaucracy and police! (We will not *usually* need firing squads, concentration camps, gas chambers, or Gulag archipelagos!) If that is the fresh new economics of the social contract; if success requires unanimity or dictatorship — if liberal democracy means failure or deadlock, British style — give me the tired old economics of the market every time, the tireder and older the better!

But let us return to the policy dilemmas. Here are three of them, for starters. (Lack of space prevents my worrying about a fourth — how willing so many of us are to reduce other people's living standards to conserve energy, save the environment, relieve world hunger — and then vote against policies that threaten their *own* standards too!)

Rising entitlements

Most serious of my three dilemmas, I think, has been called by the Harvard

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sociologist Daniel Bell a "revolution of rising entitlements." The argument is that everyone is entitled to at least the average income, without having to work harder than the average person or under less pleasant conditions. This appeals, I am sure, to most people's intuitive senses of justice and ethics. But justice and ethics involve us in difficulties of arithmetic and algebra. Can even Senator Jackson or the Humphrey-Hawkins Act put 100 percent of the people into the top 50 percent of the income or the wealth distribution? If average American family income is approximately $15,000, can they bring all the $5,000 and $10,000 families up to that level during one administration without bringing down not only a few superrich but also the much more numerous $20,000 - $50,000 middle class? Since half society's jobs are more dull, unpleasant, or dangerous than the other half, who is going to do them if everyone has a $15,000 family income? How much would a head of lettuce have to cost (in consumer prices, in taxes, or in the inflation rates) to pay *you* whatever sum would induce you and your family to accept stoop labor ten hours a day under an Imperial Valley sun?

Unemployment problem

We can also relate "rising entitlements" to the unemployment problem. Suppose you, an unemployed worker, had a choice between a guaranteed job at $100 a week and a 20 percent chance of landing a $400 one. With only these alternatives you would take the poverty-level job fairly soon. A perfectly rational decision. But now let us change the rules: One hundred percent chance of $100 against a 20 percent chance of $400 *plus* an 80 percent chance of relief (or unemployment insurance, or living off relatives) at a $75 weekly level. Most of you, perfectly willing to work at the right job on the right terms, would equally-rationally reject the lousy job and keep on looking under the new rules. Most tired old economists — led, however, by the brilliant young Martin Feldstein of Harvard — think most of our unemployment is usually "search unemployment" which would disappear if relief or equivalents were more unattractive than they are. These economists go on to doubt that present unemployment rates (about 6 percent) can ever fall to the levels we want (4 percent) so long as we continue subsidizing longer job searches by the unemployed. But are we really willing to let economic necessity force the poor into dirty, disagreeable, dead-end jobs at poverty wages?

This is the dilemma: How can we combine low measured unemployment with just (or equitable, or compassionate) treatment of the unemployed? Here is an impossible assignment to think about: Find some "politically realistic" ratio of relief level to average wage, which forces no individual A into what is called sub-employment and permits no other individual B, with different tastes, "a life of Riley on the dole." All or

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nearly all existing ratios are damned simultaneously from the political Left as too hard on A and from the Right as too easy on B.

Money and inflation

My third dilemma is about money and inflation. We all know we would buy more, or employ more people, at 1939 or 1959 prices or wages than at prospective 1979 ones. But we also know we buy less — not fewer quarts of milk and loaves of bread, perhaps, but fewer suits of clothes, pairs of shoes, or household appliances — when prices are *falling* than when they are *rising*. (The temptation is to wait for prices to fall further in the first case, and to beat the next price rise in the second.) And we don't know how to get lower prices by a combination of monetary and fiscal fine tuning, without first having them fall from "here" to "there".

Of course a Great Dictator could force prices (including wages!) down at once without warning, and without much regard for "justice" as between debtors and creditors, old and young, fixed incomes and variable ones. (But if anyone wants a dictator, even "Me for Dictator," he hesitates to admit it.)

Just as politicians scorn economists' still small voice of anti-social (?) conscience, economists worry about politicians whose idea of political economy is "never to vote for a tax or against an appropriation." Madame de Pompadour said to Louix XV of France, "*apres nous, le deluge*." The deluge washed the king's successor (his grandson) away in blood 19 years after his death. Too many of our politicians find that it pays off to say, "*apres l'election, le deluge*" than keep me entirely happy about either our country's future or democracy as a system. Can no one rise higher than Dog-Catcher or County Commissioner who would say instead, with Henry Clay, "I'd rather be right than President?" (Henry Clay was often wrong and never President!)

And before being too unkind to our politicians, what about our neighbors, or ourselves? Did you, by any chance, react to our worsening energy prospects by buying yourself a great big "recreational vehicle" to spend your vacation cruising 40 or 50 States at 8 miles per gallon of OPEC oil? (Maybe your last chance before dollar gas, lighter cars, rationing, or whatever lies ahead!) Maybe you are carrying around a miniature policy dilemma inside your own skin: "*Apres les vacances, le deluge!*"

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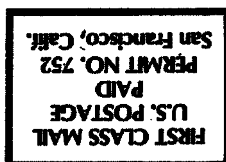

BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 1/24/79	Change from 1/17/79	Change from year ago @ Dollar	Percent
Loans (gross, adjusted) and investments*	120,019	− 137	NA	NA
Loans (gross, adjusted) — total#	97,924	− 224		
Commercial and industrial	28,680	− 10		
Real estate	34,881	+ 114		
Loans to individuals	19,848	+ 69		
Securities loans	1,569	− 252		
U.S. Treasury securities*	7,616	− 26		
Other securities*	14,479	+ 113		
Demand deposits — total#	39,518	− 2,839		
Demand deposits adjusted	29,744	− 1,505		
Savings deposits — total	29,912	− 212		
Time deposits — total#	50,972	+ 130		
Individuals, part. & corp.	41,320	+ 84		
(Large negotiable CD's)	19,104	− 263		

Weekly Averages of Daily Figures	Week ended 1/24/79	Week ended 1/17/79	Comparable year-ago period
Member Bank Reserve Position			
Excess Reserves (+)/Deficiency (−)	− 27	+ 14	+ 24
Borrowings	− 73	− 61	− 12
Net free reserves (+)/Net borrowed(−)	− 100	− 47	+ 12
Federal Funds — Seven Large Banks			
Net interbank transactions [Purchases (+)/Sales (−)]	+ 1,243	+ 1,050	+ 1,546
Net, U.S. Securities dealer transactions [Loans (+)/Borrowings (−)]	+ 583	+ 445	+ 765

*** Excludes trading account securities.**
 # Includes items not shown separately.
@ Historical data are not strictly comparable due to changes in the reporting panel; however, adjustments have been applied to 1978 data to remove as much as possible the effects of the changes in coverage. In addition, for some items, historical data are not available due to definitional changes.

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