

Kit Kat Centennial Presentation by
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The Heffalump Trap
(1964-1975)

Allan Proctor, aided and abetted by Artie Isaac, gave me the privilege of addressing the Kit Kat group. This is the first time in several years that I have been asked to speak or deliver an essay. However, marriage and children have gotten me accustomed to non-speaking roles.

Allan and Artie also gave me, as part of the assignment, a stack of former essays from the period of 1964-1975 and some instruction on somehow using this period as a basis for pondering. Then they nicely reminded me that I needed to provide a traditional Kit Kat title which, when accompanied by an hour of strong drink ahead of time, might confuse the audience.

So a brief word about my title, The Heffalump Trap. Most of you know that children's literature is often the disguised allegory for adult wisdom. For instance, the Wizard of Oz is really a mild jab and the then perceived need of Populist politicians to spoof the then popular Gold Standard. Oz refers to an ounce of gold, also the Yellow Brick Road; the Scarecrow represents the exploited agricultural interests; the Tin Man is a symbol for the exploited industrial working class; and the Cowardly Lion is, of course, the political establishment who were then, as now, seen not to stand up to the evils of the day. The Wicked Witch came from the west, where gold is mined. The other Wicked Witch, on whose house Dorothy landed, is from the East, home of Wall Street. Keep the Cowardly Lion in mind. (You probably voted for one lately.)

- That's one example

Note: A research finding at the end gives historic background on Kit Kat.

My essay title is actually from another adult book written for children entitled The House at Pooh Corner by A. A. Milne. Winnie the Pooh, a Bear of Very Little

Brain, encounters most of the personality types we all meet and, in traditional English style, muddles through. Although not bright, Winnie the Pooh is focused on his personal needs. For instance, he keeps his clock stopped at eleven o'clock so that every time he looks at it, it is time to "eat a little something." He eats honey and has no source of employment, but honey comes anyhow. His companion, Piglet, looks up to him and is a timid worrisome sort. When Christopher Robin casually mentioned Heffalumps, they decide to dig a deep pit to trap for Heffalumps. After they complete the trap, they go on about their business. But later, in wandering around, they themselves fall into the trap.

I have thought about this phenomenon of self entrapment recently when reading the e-mails that corporate managers send to each other and are later discovered by the Justice Department.

The instructive take away from this Heffalump adventure is to remember two things ... things that bear on our everyday life.

First, there was no Heffalump ... it was all the product of collective imagination. This reminds us of the imaginary Russian missile superiority prior to the 1960s ... it was sort of a Heffalump in our political life.

But, second, there was in fact a Heffalump Trap even though there was no Heffalump ... a real pit ... but instead of entrapping the imagined Heffalump, it entrapped its builders. Many of our well intended political and consumer enhancement later moves entrap us.

It was pleasing, to me, that 1964-1975 was my assigned Kit Kat review period because it is significant to me in several ways.

Thekla, my then and now wife, two small daughters and I arrived in Columbus in 1964. I had taken a significant pay cut to join a family bank part time, so that my prior extensive consulting travel could be reduced to improve family life. So, while I was not initially in Kit Kat, it was a period when I met some of the Kit Kat names like Chuck Lazarus, who delivered a history of fashion essay, and Harold Enarson, President of The Ohio State University.

In the period of 1964-1975 assigned to me, Kit Kat members wrote about a variety of things. Going through the readings of the period turned out to be less of a chore than I imagined.

As previously mentioned, Allan Proctor delivered a sheaf of Kit Kat essays from that era. I first selected to read some of the essays from people still around after these 40 or so years.

- Dick Oman wrote about Nantucket and since then went on to buy a home there.
- John Carnahan wrote about the New River and neighbors of his ancestors who saw Indians massacre their neighbors and carry some off in captivity.
- And Tad Jeffrey went back to his roots at Williams College to review Alexis de Touqueville who, visiting this country about the time of Andrew Jackson, worried about the underside of democracy: those rabble of voters would vote to provide more benefits for themselves than they were willing to pay for. Touqueville did hold out the hope that the educated class of men he encountered here might stem the tide ... these men, he thought, were the lawyers.

The most scholarly Kit Kat essay work I reviewed was by a man I did not know. E. J. Crane,¹ long associated with Ohio State, had been appointed to some Phi Beta Kappa National Committee to develop a list of the best science books. Anyhow, they ranged from discussions of how camels can live and work in the desert to Darwin's work, to a book by Halag on the Coming Age of Solar Energy.

Several Kit Kat essayists, including the newspaper editor, Don Weaver, touched on the population problem. Remember the world population in 1964 was 3.276 billion. Now, of course, it is more than six billion and rising. One of these essayists said that he had read that if the rate of growth continued for 600 years, there would only be one square yard per person and no room for animals.

But if you study the decade, it leads to the conclusion that this decade was really a pivotal decade. Some of the important trends we wrestle with today were begun or deepened then ... some reversals of past trends occurred.

Before talking about the traps we built in the 1960s, we should pause to recall one of the traps we did a lot to get out of during that time. By 1965 the War that gave our population of "involuntary immigrants" full citizenship had been

¹ Crane said he "directed Chemical Abstracts work for 44 years" starting in 1911.

over for 100 years, but in many ways the idea had been thwarted. The 1960s were a major turning point in Civil Rights.

This was a pivotal decade for Civil Rights. No one in the 1960s would have bet that, by now, the Republican Party would have an African-American Chairman and the President would be an African-American. But the 1965 era was pivotal in altering race relations. It was the decade of Selma, NAACP non-violent protests and sit-ins, Martin Luther King, and court decisions for school integration, enforced by Federal marshals and troops.

JFK, once he had secured the nomination, offered ... more as a matter of courtesy not expecting acceptance ... the Vice President spot on the ticket to Lyndon Johnson, the "Master of the Senate." The Kennedy campaign was surprised when he accepted a job most believed would be a come-down. But Johnson was looking ahead eight years to being Kennedy's successor. It came sooner. Johnson felt that to make himself acceptable to northern voters he needed to put through a Civil Rights Act. His mentor, Senator Russell of Georgia, told him that if he did that he would lose the South to the GOP. Johnson, after Kennedy was assassinated, used the fallen President's martyrdom to get the act passed.

Then look at violence. The nation would experience the triple assassinations of two Kennedys and then Martin Luther King. And 1965 saw Malcolm X assassinated.² Violent crimes in 1965 were only 23.5 per 1,000 population. For ten years violent crimes steadily rose and ended the decade at 53.0 per 1,000 population.

A few years later, violence reached out for President Ford who, in one two-week trip, had two assassination attempts in California. On the first, the gun was aimed at point blank range but fortunately wouldn't fire, and two weeks later a bystander deflected the aim of a second assassin. The President told the staff maybe they should not plan more trips like that.

The reflection in popular fiction image of the President was changing with the times. You recall in the old black and white movies how in some final scene the hero, such as Jimmy Stewart, accompanied by his adoring spouse, maybe June Allison, was congratulated by a President ... often shown in a simple back shot in the Oval Office. Presidents in our fiction then had a good image. But the image in movies evolved into Presidents who had affairs, were scheming, were corrupt and may have been involved in plots against the nation. The funny

² In February 1965, at a rally in Harlem.

movie entitled Dave is an example of one. The President's image reflected more human flaws.

But, to me, perhaps the most serious pivot in our nation's economic life occurred halfway through the 1964–1975 decade. Not heralded at the time, and only recently getting recognition. Recall that even during the Great Depression of the 1930s, the United States had been a nation that exported more than it imported. And, of course, in WWII and its aftermath we became the arsenal supplier to a warring world alliance and then rehab supplier to a devastated war recovering world.

During the decade under discussion, in the pivot years, 1970 to 1974, the United States became a net importer and has remained so ever since. This was an important, under the radar, turning point. Because nations that steadily import more than they export must figure out how to pay for the goods.

There are many reasons for the shift to the USA being a net importer, but four stand out:

1. Technology and communication made it easier to transfer industrial know how to other nations who were rebuilding after the war.
2. Shipping and distribution, such as our interstate highway system, made it cheaper to get goods from here to there. Our better roads were a subsidy to importers.
3. We went from being an oil exporter, which we had been before WWII to an importer of oil energy.
4. There was an historic shift to other nations' lower wage but productive workforces, due in part to an historic rejection of bureaucratic socialist control of the economy by India and China and other Asian nations. We may be in a unique historic convergence toward universal world wages.

While it is true that we still export lots of arms, big airplanes, computers, movies and foodstuffs, this is not enough to pay for what we import such as foreign autos, the oil to run them, and an array of all kinds of consumer goods such as much of our clothing and electronics.

This import-export gap has to be settled and filled by money coming in. Money of two kinds: (1) mostly loans to our government, in turn gives the money out to our people and (2) by asset sales³ and claims on our assets through investments, a smaller number, but growing.

The popular notion that the trade gap is incurable because low wage nations are stealing our jobs has not had enough critical analysis. Until last year the nation with the best export record was not a low wage Asian nation. Instead, it was a nation with heavy social benefits, heavy unions and many firms that were not of giant size. It was Germany, a nation of only 83 million people, but able to make and export things other nations want to buy. A byproduct of their vigorous exports is Germany's ability to keep their currency stable and to provide financial strength for the whole Euro zone. Not until last year did China, giant China, pass Germany up as the leading exporter.

So we became a nation best characterized as the world's consumer. This had benefits of lifting many out of poverty elsewhere, but we were borrowing from foreign nations to buy our imports and fill the trade deficits gap.

The United States turned away from making things people want to pay for, to favor financialization ... that is, trading paper claims on things ... a byproduct of this shift was its impact on income distribution. Until the 1960s, the gap between rich and poor had been narrowed. After that decade, the gap widened. The income distribution has gotten skewed. The top 5% and 1% of the population took a growing share of the national income. We now approach former South American standards of income gaps. There was general outrage when it became public how the bonuses of 30 to 50 million were, in effect, being financed directly or indirectly by the U.S. Government. This is not just only "the taxpayer bailing them out." In a nation where only 47% of the people pay Federal income taxes, it is not just the taxpayer ... it is everybody, because taxes won't cover the bill and it is likely to be inflated away over time one way or another. And some of the ways are highly disruptive. So taxpayers and non-taxpayers will lose out.

Early in the 1960s, the government required corporations to publish what has heretofore been most confidential information ... the pay of top executives. The idea was that the sunshine of disclosure would put a brake on this number. Instead, it again showed the phenomena of unintended consequences. Each published figure became a leap frog hurdle for competitive organizations. And

³ One observer said we might consider selling Alaska to China. They would eagerly buy it and we would thereby export Sarah Palin.

when Congress later applied a fig leaf of limiting tax deductibility of executive salaries, creative stock schemes on performance sharing bonuses valued pay at the top even higher.

- And the corporate executive and his advocates could always say ... he could make more if he left and went into private equity or leveraged buyouts.

But as the recent debate over the Obama tax proposals show, taxes near term are unlikely to level the income distribution. The popular fallback is to say education must do the job. But that is akin to saying wind power can cure the energy problem. Education, if it works, is long term and untargeted. And not too efficient the way we run it. Also, improving education cannot be effective without a change in parental attitudes and television. And it overlooks the impact on home life on students. Moreover, not all education is economically productive. In America, we turn out more educated social workers than we can afford to employ and turn out too few engineers and physicists.

In addition to the consumer led import deficit gap, we were also expanding our military role in a generally peaceful world. At the same time, the enrichment of promised entitlements to an aging population was started in the 1960s and would be driven upwards by the demographic curve and the almost unimaginable increases in costs of medical care. Understandably, the cry would go up for the government to shoulder more of the healthcare cost ... meaning it would be spread to all the citizens and we would later have to determine how to pay for it collectively.

The decade of 1964-1975 saw a significant extension of our military to support our empire of influence. At the beginning of the decade, JFK had been talked into sending 15,000 military advisors to Vietnam. Eisenhower had rejected Vietnam involvement, and Kennedy and Johnson resisted it, but felt dragged in to show that politically they had the nerve to stand up to Communism. You recall Democrats had been accused of losing out to communism at Yalta, losing China and, by Joe McCarthy, soft on communism generally. In Vietnam, especially, we favored spending money to losing lives, although we lost plenty of lives. Nixon tried various schemes to get us out; none avoided a pull out loss which could not possibly be disguised.

Wars are always fought with borrowed and printed money. And we did lots. Moreover, unpopular wars do not lead to a voting population that accepts sacrifice. Quite the opposite ... it pressures politicians to court favor by increasing civilian spending ... butter and guns.

Harvard economic historian, Niall Ferguson, also says that when the interest paid on the debt becomes as high as the military budget, then the nation's ability to project its empire of influence is close to an end.

So we evolved a federal government financial deficit that, with the exception of the few years of a later peace dividend and stock market boom of the late 1990s, has become a permanent fixture. Projections by the Congressional Budget Office show deficits as far as the eye can see.

You are all aware, perhaps in view of the election more aware than you chose, of the fact that neither party came up with any meaningful program to reduce government deficits at the Federal level, or even most state or municipal levels. The answer is simple to see ... spend less than you make, but there is no political will by the electorate to put it into effect. Four elements, three of which (Medicare, Medicaid and Social Security) must inevitably rise due to population trends, and one of which (military spending) involves emotional arguments about supporting the troops, accounts for about 85% of Federal spending. The idea that the remaining 15%, which includes aid to embattled state budgets, can be radically reduced to balance the budget simply cannot work.

Look at healthcare ... both the rising totals and the percent paid by the government.

Billions of Current Dollars

Year	Total Healthcare Expenditure	Private Paid	Public Sources Paid	Federal Portion
1965	42,160	31,690	10,470	4,794
2009	2,472,207	1,268,763	1,203,443	918,608
2019 (Proj.)	4,482,696	2,154,427	2,328,269	1,728,460

Note: Like all government statistics, there are different series. The jump from 1965 was so big we checked several sources ... numbers differ but magnitudes are similar.

If these numbers are right⁴, there has been more than a fifty-two fold increase in total healthcare cost since 1960. But an even greater times increase in the public's payments. Who among you expects, in a graying nation, that the cost will decrease?

The non-partisan Congressional Budget Office (CBO) says that in the past year the interest on our Federal Debt took up 9% of Federal Income. Keep in mind this is a low interest time. The Treasury benefits, the American savers lose out. If rates rise, the Federal interest burden gets worse.

CBO projects that by 2020 the interest on Federal Debt will consume 20% of Federal Income. And by 2040 will consume 58%, almost two-thirds. Keep in mind that about half these interest payments go offshore to foreigners.

Now we come to the Harvard Economic historian (Niall Ferguson) who says that throughout history, when great empires are faced with an interest burden of 50% or so, they are on the verge of decline.

	% of Government Revenue Going for Interest on Government Debt
Spain in 1543	67%
France in 1788	62%
Turkey in 1877	50%
Britain in 1920	45%

These declines are often socially disruptive.

To borrow yet more to cover the increasing interest cost on the Federal Debt, means that an increasing share of our government revenue will go to cover these interest costs. This can go up even faster if concerns about inflation cause a rise in interest rates.

⁴ These are so dramatic that I wanted to check them again before submitting the final essay. They are from the Statistical Abstract of the United States. One wonders if anybody in government looked at them.

As the economic historian at Harvard has asserted ... when the interest on the national debt of government gets too large, the government can no longer support its dream of empire projected by its military and the empire of influence declines. Some of these declines can be drastic. Whether it is France under Louis, the Spanish in the Armada days, or The British Empire after two world wars.

We should also mention that real estate expenditures, which had risen about in line with economic growth, began to move up a bit faster in the 1964-1975 decade. The really big jump would come later after Alan Greenspan flooded the nation with money, and much of it rolled into real estate after it rolled out of Dotcom stocks.

In effect, we were borrowing money from foreigners to speculate in real estate and computer stocks. This is different than in prior times when we borrowed foreign money to invest in the economy ... railroads and steel mills. The initial beginnings can be traced to the guns and butter financing of the unwelcome Vietnam War.

Nations have become debtors, often over wars, but this might be the first time the leading financial power has been the leading net debtor just to speculate and consume. With no thought of the "spoils of war" possibly bailing out the nation.

A CBO projection shows that the tipping point of interest on the debt absorbing too much of government revenue could be reached by the United States by 2040. Already there are those who believe our creditors are tiptoeing toward the exit. Not running, but tiptoeing. China has not increased its holdings of Treasuries for about 18 months and is buying commodities instead. India is buying gold when it is available.

This is admittedly not a rosy outlook. It would be unduly pessimistic to believe we are finished as a prosperous nation or that, as some have conjectured, our grandchildren will live less well than we. But what seems reasonably clear is that the present pattern of borrowing cannot continue. Moreover, even as our descendents preserve their absolute standard of living, for instance, the people of Britain and France clearly live better than their ancestors did at the height of those nations' power. Still, our margin of lifestyle superiority seems quite likely to vanish. Your grandchildren may be tour guides of visiting affluent Chinese and Indian tourists.

Former Secretary Paulson was asked about this and he said he doesn't pay much attention to projections because, as he said, "they are always wrong." The Harvard economist who made the projections was asked for some words of optimism and he quoted Churchill who said, "America always does the right thing ... after all alternatives have been tried."

There is at least more public attention now focused on the issue.

Epilogue

This essay was written before two blue ribbon panels had submitted their conclusions to the public. The White House had appointed a commission to recommend ways of dealing with the deficit. And there was a bipartisan group appointed by Congress.

Both groups tackled what the politicians running for office had been too timid to do. Namely, saying that entitlements must be trimmed by advancing the eligibility age and that taxes must be increased. Remember the Cowardly Lion referred to in the Wizard of Oz who represented politicians. Interestingly, neither commission recommend adding a dollar to the gasoline tax, which should have been done last year when gasoline prices at retail fell from about \$5.00 to less than \$3.00. Conservatives should have liked it because it is easy to collect. Liberals should have liked it because it is pro-environment. Simpson's commission recommended a mere 15 cents.

After these two reports had been published, the New York Times reported a survey of public reaction. The public was measured in the survey, was favorable to taxing those who make over \$250,000, but against doing anything much to entitlements or taxes generally. At least the issue is more prominently on the table. For a while.

Japan, the United States and Germany, which together make up probably less than 10% of the World's population, create half the economic value of the world and use a disproportionate share of its resources in doing so. All three countries have aging workforces, and Germany and Japan are aging quite rapidly. The USA, with immigration, is graying less, but the trends are there. Three or four decades from now the support of retirees will be the major priority in all three nations, and the rest of Europe and answers will not come easily, or affordably, at today's legally sanctioned benefits.

At least the issue is now on the table. It sits there, increasingly discussed, but largely not acted upon. We'll see.

Historic Note on Kit Kat

In older England there were members of a secretive society known as the Kit-Cat Club, an organization of Whiggish disposition that had been founded more or less exclusively to ensure the Hanoverian succession---the dynastic change that guaranteed that all future British monarchs would be Protestant even if, in the short term, they were not notably British. That the Kit-Cats achieved this aim was no small accomplishment since their candidate, George I, spoke no English, had almost no admirable qualities, and was by one count no better than fifty-eighth in line to the Throne. Beyond this one piece of political maneuvering, the club operated with such discretion that almost nothing is known about it. One of its founding members was a pastry chef named Christopher---or "Kit"--Cat. Kit-Cat was also the name of his famous mutton pies, so whether the club was named for him or his pies has been a matter of debate in certain very small circles for three hundred years. The club lasted from only about 1696 to 1720 ---specific details are unknown---and total membership was only about fifty, of whom two-thirds were peers of the realm. Five members--- Lords Carlisle, Halifax and Scarborough, and the Dukes of Manchester and Marlborough---commissioned work from Vanbrugh. Membership also included Prime Minister Robert Walpole (father of Horace), the journalists Joseph Addison and Richard Steele, and the playwright William Congreve.

Source: Bill Bryson, At Home