# IV. Further Needs in Government Economic Policy

Despite much progress in the relations between business and government, there are still some gaps in national economic policy as viewed by the Council. The word "gaps" is used advisedly to indicate our belief that improvement in current operations should proceed at least apace with ventures into new fields. This does not mean that no new programs are needed, or that the nation can pause in building upon solid foundations. While this report is not the place for specifics, we have said that measures such as social security should now be expanded. But one way to safeguard progress is to consolidate the gains which have been made.

## NEED FOR FURTHER HARMONY AND CONSISTENCY

A cardinal task, as the Council sees it, is to achieve even more harmony and consistency among those outstanding programs of government which greatly affect the whole economy. During the critical mid-thirties, when some of the structure of current national policy was built, there was no time to develop symmetry for the various wings of the structure or to connect them with the center. This was inevitable during an economic emergency, but there is no such emergency now. The privilege of men and agencies within a free government to give differing advice should be cherished. But this does not mean that the final execution of public programs touching upon the whole economy should not achieve that internal consistency and that harmonious relationship to defined common objectives which any large undertaking demands.

In the context of this problem, much good may be derived from the comprehensive work of the Hoover Commission and from the steps which the President and the Congress have already taken to implement it in part. More efficient use of personnel and of instrumentalities can register great gains for the taxpayer and for the country. But administration is an arm of policy, not the heart. For every dollar affected by the use of personnel, there may be a hundred or a thousand dollars affected by basic economic policy. It is here that the most costly mistakes could be made or the most useful services rendered. Here also manifold gains have already been affected, but there is need for still more progress.

This progress toward still further harmony and consistency in governmental economic policy does not in the judgment of the Council call for the establishment of more agencies or committees. It calls instead for a unifying framework within which each separate economic policy may be tested against its effect upon the general economy and upon the promotion of maximum opportunities for employment and production in free, competitive enterprise. This depends in turn upon the further use of machinery which the Congress has already made available and which the President has always been ready to use—the machinery of the Employment Act of 1946. Progress in this direction is reviewed later in this report.

### NEED FOR MORE STABILITY

As government economic policy becomes increasingly consistent, it should also become somewhat more stable. The prudent American family makes some arrangements lasting 20 or 30 years; a moderately large business may look 50 years ahead; and a local government sometimes looks a century ahead. The biggest venture of all, our Federal Government, should strive gradually to modify its habitual practice of carrying almost all of its major policies and programs on a year or year and a half basis. The credit and spending and regulatory and tax policies of the Government are so highly conditioning to the whole economy that the degree of stability of these policies affects the degree of stability throughout the whole business world.

Some short-run shifts, indeed, are necessary to enable the Government to alter its position and thus to "compensate" for changes in the private business situation. But we have already in this report indicated that if the Government moved gradually toward placing somewhat more of its own activities on a somewhat more stable and longer-range basis, this might add greatly to the stability of the whole economy. The placement of some public programs primarily upon this basis rather than upon a "compensatory" foundation would also hold these programs truer to their intrinsic purposes. The intrinsic purpose of public works is not to take up slack in employment, but rather to build up our national wealth by procuring certain end products which the country needs but which cannot be produced in any other way. Similarly, a decision to expand our educational facilities should be related closely to the priority value which we place upon education, rather than to the usefulness of school construction in taking up a business slack. All or some of these programs may to a degree be expanded and contracted in response to variations in private business. But the variation should not be carried so far as to interfere with the primary purpose of these programs.

Our public programs are supported out of the production record achieved by the economy as a whole. We should ask ourselves what is the productive potential and capacity for growth of our economy over a reasonable span of years, assuming that we are fairly successful in maintaining full utilization of our material and human resources. We should then ask ourselves what part of our output of materials, money, and effort—over a similarly reasonable span of years—we want to devote to specific purposes such as public improvements and education. The Council admits that this involves social as well as economic judgments; but nonetheless the problem has elements which prompt economists to suggest an orderly method of arriving at results although they do not presume to dictate what these results should be.

The Council thus leans toward some further development of reasonably stable policies, in a few major conditioning areas, to cover a moderate span of years. Allowance should be made for the growth potential of the economy, instead of basing policy upon the assumption that the economy will linger indefinitely near a point reached after a half year of recession or fail to move again toward maximum levels of employment and production. This stability and confidence, displayed by government at so important a sector of the economy, might favorably condition also the free enterprise sector.

The argument may be advanced that more stability in some public policies is impractical because "we cannot see that far ahead." The problem is admittedly one of degree. But it is easier to predict safely that our economy will grow in the long run than that it will grow in 1950, although we believe the latter also to be true. This is not to say that short-range adjustments have no place in a rounded economic policy; some of these short-range adjustments may now be needed, but they should not be asked to carry too heavy a load. If, despite the effect of some reasonably constant public policies, serious downturns in general economic activity should occur, it may still be practical to readjust public policy upon observation of the event. Economic downturns do not progress so rapidly that they leave no time for effective changes in policy. However, we repeat the more important consideration that temperate progress toward somewhat more stability in government policy would promote more confidence and stability throughout the whole economy and thus help to hold the manifestations of instability to manageable proportions.

One caution is called for. The foregoing discussion develops principles for gradual application, but it cannot be accepted as a necessary guide to specific policies during the coming year. For example, while we should aim in the long run for reasonable stability in tax policy, the great changes in the tax structure over the most recent years and the double reversal of economic trends in 1949 may make it necessary to alter the tax structure somewhat before a basis for stability in future years will have been laid. But this does not vitiate the principles which we have set forth; it simply proves that the objective cannot be fully accomplished overnight. The Council hopes that the specific policies soon to be announced for 1950 will show some progress toward the goal of improved stability and that this goal will be increasingly pursued in subsequent years.

NEED FOR CORRELATION OF WELFARE PROGRAMS, ESPECIALLY SOCIAL SECURITY, WITH GENERAL ECONOMIC POLICY

The need for still more harmony and consistency in national economic policy, and for its placement on a somewhat more stable basis, has cogent applicability to programs such as social security. A still better understanding between business and government would result if the excessive separation were lessened between "economic" and "social" programs—between a government interested in encouraging the growth of the economic system and a government interested in "welfare." Those who quite appropriately raise the question of how much "welfare" is going to cost, or whether our economy can stand that cost, clearly recognize that programs of social security which involve billions of dollars in taxes and in public outlays cannot be divorced from economic considerations.

The support of people who are too old to work or who are unemployed or ill does not create wealth. It is not like the production of goods and services. For the most part, it enables certain individuals to consume wealth which is being currently produced by others. The real question is how much of current production may be diverted to support this particular type of consumption (above a base subsistence level, for that level of support the economy must bear in any event) without sacrifice of relatively more important objectives. This makes social security an economic problem in the same degree as striking an appropriate balance between business investment and ultimate consumption, or between defense and foreign aid programs and the requirements of our domestic economy.

Sometimes it is said that, whatever amount of income may be flowing to the old or to the unemployed, it is economically desirable because it creates purchasing power and thus provides demand for the products of industry. But no *additional* purchasing power is created if this income is simultaneously taken in equal amount from those who are still employed. In fact, there might be future deflationary elements in a social security system which for too long provided a large excess of forced savings going into reserves over current payments to the aged. Payments to the old or the unemployed which resulted from deficit financing would create purchasing power of a sort. But purchasing power generated in this way, while it would be better than no purchasing power at all, would not have equivalent economic value to purchasing power generated by production efforts. For similar reasons, cutting the workweek simply to provide jobs for more people—which is a form of sharing unemployment—would never be as beneficial as obtaining the full use of our productive resources, even though it might be a necessary expedient if we failed egregiously in the more important task. Likewise, the age at which workers retire or the size of the benefits they receive should not be determined by the fallacious idea that this is a good way to create more purchasing power by adding the purchasing power of those who are not working to the purchasing power of those who are working. We should start with the assumption that our economy will be most productive by providing useful jobs for as many people as are able and willing to work. In that event the national policy with respect to the general age of retirement would be based not upon an artificial method of leaving more job opportunities for others, but rather upon a decision that the functioning economy can afford to support people who have reached a certain age without requiring that they work further.

Social security programs are viewed in a distorted perspective unless it is realized that their justification rests upon two grounds. First, that the cost of caring for the old, the unemployed and the sick always falls upon the economy; and that bearing this cost in a systematic way is more efficient than bearing it through charity or improvisation. Second, that as an enlightened nation we are willing and even eager to divert a portion of our annual output away from capital replenishment and away from consumption by current producers in order to make life more livable for those who are unable to produce through no fault of their own. The appropriate test for the size of a social security program is how much of our resources on balance we wish to devote to this humane purpose, taking into account all the competing purposes and needs of our kind of economy. It is true that the social insurance programs make our economy somewhat stronger by cushioning it against fluctuations by their "built-in stability" effects. But the larger question is how much of these programs a strong and rich economy can and should afford.

The true nature of the social security problem being what it is, the concept of "saving" for social security is in one sense useful and in another sense misleading. It is useful to recognize that we must save in order to enlarge our productive equipment. Without such enlargement, our economy would not be able to turn out more goods from year to year and therefore would not be able to afford the progressive expansion of social security. But it is misleading to assume that through any process of bookkeeping, either personal or national, millions of people can "save" the food, and clothing, the medical care and recreational allowances which they will be consuming 30 years from now when they retire. What they consume when they retire will be produced not by themselves but by the working force at that time, and what they save now should be channeled insofar as feasible into current investment opportunity.

The Council strongly favors the national system of social security which involves contributions from employers and from workers on a systematic basis, and which also involves contributions by government. This is the best way to protect people in their old age as a matter of right, and not to leave what may happen to them them later on subject to unforeseeable policy decisions in the future. Yet our discussion of the social security problem implies that gradual efforts should be made to improve the contributory system so that at least part of the contributions would be more nearly on a "pay as you go" basis. By this, we mean the gradual development of a closer balance between social security receipts and payments from year to year. The ultimate objective should be toward making withdrawals from the economy for the purpose of social security roughly balance the contemporary cost of benefit payments, although it might always be desirable to maintain some "reserves" of significant size. We also believe that, as coverage becomes more general, a larger part of social security receipts should be obtained through general revenues rather than payroll taxes.

This gradual development would be sound economics for reasons already given; and it would also provide a better gauge as to the magnitude of future social security benefits which we can afford to enact into present legislation. For if enactment of legislation now involves the commitment that X number of people who will not be working 30 years from now will receive Y number of dollars of old age benefits per month, the real test of whether the nation can afford such a program is not XY dollars per month measured against the *current* size of the economy but XY dollars per month measured against the productivity of the economy *30 years from now.* Social security expansion now, insofar as it applies to persons who will not retire for many years, should make considerable allowance for an assumption of continuing secular economic growth. Almost all of our national policies in the long run depend upon the validity of this assumption. For otherwise we face continually rising unemployment, under-utilization of our resources and technology, and increasing disturbance to our whole economic system.

The Council's main reason for offering this analysis is to promote the application of sound economic principles to social security matters. It is not our function in this report to argue for a social security program of any particular size. Yet it seems clear to us that the application of sound analysis reveals that our nation can afford a considerably expanded social security program without impairing our economic stability or weakening our growth potential.

## COORDINATION OF NATIONAL ECONOMIC POLICY IS NOT "CENTRAL PLANNING"

The Council's interest in the orderly evaluation and systematic reconciliation of public policies should not be misconstrued as any leaning toward "blueprinting the economy" or "central planning." Except for the reference to social security to clarify certain points in our analysis, we have not here dealt with any specific additions to governmental programs. We have only stressed that, *whatever* the scope or extent of government programs, there should be applied to them those principles of consistency and harmony which are valid in the case of any material undertaking of business as well as government. The use within government of that "budgetary" concept which is applied by any large corporation in the measurement of its competing needs and prospects is compatible with the maintenance of a flexible and pragmatic spirit in government as well as in business.

In the long run, this approach should lead to the simplification rather than to the proliferation of public programs. For the more successful government becomes in weeding out inconsistencies and adapting means to valid ends, the more the taxpayer will be saved in direct administrative costs. And the more effectively government weighs the effect of its established programs upon the whole economy and upon the course of business development, the more confident and prosperous our business system should become. This, in turn, may help to protect us against those serious economic downturns which provide the main impetus for certain types of public intervention in response to public need.