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PLANNING AND PRESENTING THE ANTI-INFLATION CAMPAIGN

The seven-point anti-inflation campaign launched last spring is admittedly in need of overhauling. There is nothing the matter with the seven points as a framework for such a campaign. The trouble is simply that very little has been done under most of the seven heads and an overload has been thrown upon the Office of Price Administration in consequence.

If recent press reports are to be trusted, Labor Day will be made the occasion for a restatement of the anti-inflation program, with emphasis on the wage formula which has been evolving at the War Labor Board and on the need of correlative farm price regulation, unhampered by the parity notion (let alone 110%). So far good. But while these are essential ingredients of an intensified drive against inflation, they are not themselves sufficient. In fact, to stress them intensifies a serious danger in the inflation field--that failure to follow up price control soon enough with the necessary supporting measures may lead to the breakdown of price control and with it of wage and farm price control.

What it Takes to Block Inflation

Prior to the present war it was unprecedented for a major power to fight a major war without a major inflation. In this war this precedent is being broken along with many others. Germany has had very little inflation of price quotations, though there is reason to suspect that behind the facade of regulated prices there has been a rather large disguised price increase through quality deterioration. Britain and Canada both had an upward price drift early in the war comparable to 1914-16; but both have got the rise pretty well under control. The United States also has had a price history suggestive of incipient inflation, and the barriers set up by O. P. A. last spring are visibly sagging at many points.

In Britain and in Germany the breaking of the inflation precedents has been managed by breaking two other precedents. Both countries are raising by taxation an unprecedentedly large fraction of current government spending; and both countries are rationing an unprecedentedly large fraction of the goods consumers buy. In Canada rationing is not much further developed than here; but taxation is. As Secretary Morgenthau pointed out to the Senate Finance Comittee on July 23, both Britain and Canada are covering over half their 1942-43 expenditures by taxation.

In the United States we are trying to bluff our way through by price control without either comprehensive rationing or adequate taxation. Actually our projected bank borrowing for 1942-43 is greater in proportion to national income than at the peak of World War I. Experience says this bluff won't work; and statistical estimates of consumer supplies and spending power give the same answer. Competent economists agree with the O. P. A. 's frank statement, made when the general maximum price order was issued, that to leave so large an excess of spending power in the hands of the public would "ensure the disregard of law" and make price control impossible.

Taxes and Rationing

If the writer of this memorandum interprets official policy correctly, it is to minimize consumer rationing--ton confine it if possible to goods of public health importance whose supplies are below prewar levels. But if consumers have the spending power now in sight, shortages will develop even though supplies are far above prewar levels. This is evidenced by the fact that there is serious discussion of meat rationing, despite estimated large supplies for 1942-43. If spending power were being kept down by adequate tax and borrowing measures, we could reasonably hope to keep the meat situation from reaching this pitch.

The more we aim to limit the scope of rationing, the more we must strive to keep spending power off the markets by other means. We should not expect to be able to get off without rationing and also to have lower taxes than Britain finds necessary with rationing. To keep rationing from spreading all over the map, we must go at least as far in taxation as Britain. When we have done so, we may still find that we have to choose between still further taxation and comprehensive rationing.

On the other hand, however far we go with rationing we must go pretty well to British lengths with taxation to keep abuses from developing. If too much money is "burning consumers' pockets", it is likely to develop black markets and disguised price increases. Both Britain and Germany have had to increase taxes after reaching a nearly all-embracing rationing system, for this reason.

In short, rationing and taxation are only partial substitutes for each other. If we had to get along without any more rationing than we have now, we might have to go to a 70% or higher coverage of spending to make retail prices stay put. But even with maximum rationing we probably need 50% tax coverage. On the other hand, a considerable extension of rationing will probably turn out to be necessary to conserve various critical supplies. Accordingly we are certain to need a lot of taxation and a lot of rationing, plus somewhat more than the minimum level of one or both.

Revenue Needs

As Secretary Morgenthau pointed out before the Senate Finance Committee, we ought to be doing as well in war finance as Britain and Canada. If we adopt 50% coverage of expenditures as a rought standard (a bit less than the British or Canadian ratio), a $77 billion expenditure estimate calls for $38.5 billion of revenue. $18. billion is in sight from existing levies. The present revenue bill is likely to yield about $6 billion for a full year, but only about $4 billion by the end of fiscal 1942-43. There's $22 billion, leaving $16.5 billion to go. This revenue need estimate is based on crude calculations, but is about the same as that reached by other methods. The writer has compared consumer goods supplies and spending power for 1942-43 in an article just appearing in Review of Economic Statistics, and finds $11 billion of excess spending power to be the minimum estimate after all allowances. This would call for about $15 billion of extra taxes. A confidential report by a committee of the Conferences of Research in Fiscal Policy (A Study of War Finance, preliminary edition, April 7, 1942, p. VII-2) put the amount of new taxes needed, including the 1942 revenue bill, at $12 to $24 billions; but this was before expenditure estimates were revised upwards from $62 to $77 billion.

Possible Revenue Sources

The three major sources from which revenue may be sought are sales taxes on commodities (general sales taxes being one species), taxes on corporate profits, and taxes on personal incomes.

Sales Taxes are prodigiously over-rated by the general public, thanks to the Townsendite magic-making with the figure of 2% and to a heavy barrage of unscrupulous sales-tax propoganda. Actually a retail sales tax to add $16.5 billion to the 1942 revenue bill would have to be at a rate of around 35%; and nobody has dared suggest more than 10%. Under the present wage formula, furthermore, a retail sales tax would necessitate wage adjustments. On the other hand a tax levied at wholesale would both necessitate wage adjustments and create a legion of new problems of O. P. A.

On profits taxes the writer is no expert; but on general principles it is plain that neither profits taxes alone nor profits taxes combined with sales taxes would remove enough spending power to make price-control workable. For one thing we are fairly close to the bottom of this particular barrel; for another, profits taxes are the least effective of all taxes, dollar for dollar, in catching money consumers aim to spend.

The great untapped source is personal income. If we were prepared to drop all exemptions as proposed by Lutz and others, a prodigious tax base could be developed. The writer of this memorandum would prefer such a "gross income tax" to a sales tax of equal revenue-yielding power, both as more equitable and as less inflationary under wage and farm-price formulas. But the fact is that a sufficient revenue could be developed without dropping the principle of exemptions, but applying really drastic rates and tightening the collection mechanism. If the principle of universalizing income taxes to give "tax consciousness" is adopted--and it has a lot of merit--the object should be to make taxes on small incomes small but conspicuous. The solution would be a minimum income tax of $2 or $5 for every income-receiver, to be exceeded only where income passes certain minimum standards.

Colleagues of the writer have figured the effect of applying British or Canadian rates and exemptions to the American national income; and careful calculation shows yields about double those of the provisions 1942 income tax as passed by the House. This advantage in yield is particularly great in the income brackets from $2000 to $7000 (for families) and $1000 to $3500 (for single persons) which contain most of the "new rich." For figures on Canadian rates see the table opposite p. 8 of the attached mimeographed memorandum. The gain in revenue over the 1942 revenue bill shown in the table is about $10 billion.n But this allows nothing for the more perfect collection obtainable by withholding at the source and by putting exemptions lower, or for the elimination of "loopholes", or for the possibility of getting farmers and other self-employed persons to make fuller returns. The likelihood is that if we took over the Canadian system we could largely solve our revenue problem.

Compulsory Loans

In the Canadian system, a good part of the tax levy is sweetened by a promise of postwar refunds. So long as precautions are taken to ensure that these "compulsory loans" represent funds diverted from consumption spending and not merely from normal forms of saving, this is perfectly good anti-inflation technique. In contrast, our savings bond campaign puts a premium on converting previous accumulated savings and on relabelling current savings which would be made anyhow. Most of the money raised, therefore, does not come out of spending. Any easy way to verify this is to examine sales by denominations. Series F and Series G bond and Series E in denominations of $500 and upward are bought by high-income people whose normal savings can readily absorb them. Sales of Series E in denominations below $500 for fiscal 1941-42 were only $1,770 out of $5,920 million, or 50%--representing a diversion from spending of perhaps $1 billion for $6 billion of bonds sold.

The fact that Canada came around to compulsory savings in June after Finance Minister Ilsley declared in March they were out of the question should give us pause. If it's really as difficult to sell the public drastic income taxes as is commonly pretended (which Gallup's recent finding that 70% want to levy income taxes on everybody above the relief level does not substantiate), the substitution of levies bearing this kind of sweetening should be considered at once for the United States.

Public presentation--the General Problem

The writer's experience with several types of audiences suggests that the arithmetic of the inflation problem is not beyond the grasp of any man-in-the-street; and O. P. A. Field Men will doubtless report the same. Anybody can see that with money incomes growing and supplies shrinking there's a "gap"; and anybody can be taught to see roughly how big it is. The idea can also be sold very readily that when goods have been mobilized, the corresponding money ought to be mobilized too.

One of the most characteristic and dangerous forms of the wishful thinking which impedes the war effort is the public's superstition that we can block inflation by forbidding price increases--that is, by treating the symptons and ignoring the rise of spending power relative to supplies which is the cause. The O. P. A. has been combattin this supersition in all its public statements, but not too successfully. In bringing out a revised anti-inflation program, it is essential not to encourage the superstition by putting price measures (addressed to wages and farm prices) too much in the forefront. A reasonably concrete tax program, with or without compulsory savings features, calculated to bring 1942-43 revenues up to half expenditures, should be presented at the sametime with the new price proposals. In presenting such a program, it is entirely proper to play up to the public's ingrained sense that it is unhealthy to "pay as we go" such a small fraction of war expenditures. The public's reasons for holding this view would not do credit to a budding economist at his doctoral examination; but there is a certain rough correctness to the view for all that. It happens that the view is most deeply seated in the middle brackets (family incomes $2000 to $20,000, Say) where the bulk of the necessary new leview must rest; and if these people can take satisfaction in a contribution to making war finance more "sound" they are thoroughly entitled to do so.

Public presentation--Types of Taxes

The backbone of a successful anti-inflation program must be a really drastic levy on personal incomes. We could do pretty well, as was indicated above, by simply enacting for the United State the new Canadian system. The essentials additions to our present income-tax mechanism are two: (1) high rates on the first few hundred dollards of income taxable. (in Canada every dollar which is taxable at all under the exmption system pays at least 37 cents); (2) collection of taxes at the time when the taxpayer gets the money he is taxed upon.

Inclusion of a compulsory savings feature should not be blocked by any misapprehension that compulsion is "undemocratic" or "un-American". The truth is expressed very nicely by a new catchword somebody proposed a few months ago: the objective of compulsion is to make adequate saving universal. The individual citizen's willingness to make sacrifices is properly much greater when he knows that his neighbors are doing their share; and to give the citizen this assurance compulsion is necessary. (The few striking successes of the savings bond campaign among low-income groups—factory workers in certain plants and farmers in certain counties--represent plans for getting universal subscriptions, backed up by pressure from trade unions or from influential citizens' committees. A colleague of the writer has just checked the 15 counties in Iowa where farm subscriptions exceed county quotas. In every case the individual farmer was told how much he was to buy and was given assurances that other people were being assessed on the same basis.)

The sales tax must be debunked. The Administration, along with other opponenets of sales taxation, has been pushed into the position of being merely sentimental, while the sales tax people pose as strictly "practical". This is nonsense. The big objections to sales taxes are practical (see pp. 5-6 of the mimeographed memorandum to the Senate Finance Committee which is attached). The sales tax has been made to look like a panacea through the Treasury's failure to revise its original revenue requests upward. If about $8 billion is needed and about $6 billion is in sight in the revenue bill, it is easy to pretend that a sales tax is divinely ordained to fill the gap. But if we face the fact that over $20 billion is needed with $6 billion in sight, the idea that a sales tax can solve our problems will evaporate.

Whether the Administration should accept a small sales tax as part of a compromise which also includes an adequate income tax an economist isn't fully competent to advise. But he can say that merely adding a sales tax to the present revenue bill will do no perceptible good. With or without a sales tax we still need a real honest-to-goodness war income tax and Administration proposals should centervon this.

An Anti-Inflation General Staff

It is no accident that the most effective steps so far taken against inflation in this country stemmed from the work of a committee representing several branches of the Administration; for the problem is beyond the powers of any one agency. But the staging of an occasional move of this character won't do the job. Until such time as we have a sound working combination of taxes, compulsory savings, price control and wage control, and consumer rationing, we are in need of a continuous and energetic drive in this direction. This calls for continuous and systematic consultation among the responsible agencies: there should be a standing committee, with some sort of skeleton staff.

The problem of such a committee is not merely to formulate a policy but to interpret it to the public. For this purpose it might well include not only representativesof administrative agencies but representatives of responsible Congressional committees (Senate Finance Committee, House Ways and Means Committee, and both Banking and Currency committees), giving it a pattern much like that of T. N. E. C. It would do well to devote some time to public hearing to get the background before the public, putting stress on the systematic presentation of evidence by invited witnesses but also admitting a reasonable amount of volunteer testimony.

The staff of such a committee should provide it with secretarial and drafting services, locate appropriate "witnesses", analyze testimony for the benefit of the committee and the public, and keep tabs on current developments at home and abroad. It might well be directed by an economist attached to the Executive Office of the president and devoted full-time to the job, so that complete results to date should be continuously available at the White House.

Besides the Congressional committees, the committee should definitely represent the Treasury, Bureau of the Budget, Federal Reserve and O. P. A. Consideration should be given to including the W. P. B., S. E. C., War Labor Board, Department of Agriculture, etc.

Formulation of a Policy

There is every reason to make the working details of a revised anti-inflation program the responsibility of the committee just suggested, which in turn would naturally refer many points for settlement to the agencies which will have to execute the policy. But particularly if the committee is to use its proceedings for public education, without doing which it's hard to see how the public can be brought to face the realities, it should have some weeks to work in. Its results, accordingly, would be some weeks too late for the projected talk to the nation on Labor Day.

This should be no barrier, however, to a Labor Day statement of the outlines of policy. The seven-point framework still holds up: the question is one of deciding further steps under several heads-- wages, farm prices, taxes, and perhaps savings. The fact that a big income levy must be the backbone of the tax program, moreover, is so absolutely clear that it should make part of the committee's instructions: it would seem like so much rigamarole to instruct the committee to investigate and see whether that might not be the fact! But it would make sense to announce the formation of the committee