Anti-Inflation Policy Backed by Economists

EXTENSION OF REMARKS

OF

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IN THE HOUSE OF REPRESENTATIVES

Monday, February 5, 1951

Mr. YORTY. Mr. Speaker, every one of us is anxious to protect and strengthen the American economy so that the Nation can come through the current and future period of high governmental costs in a sound state. The manner of accomplishing this involves some differences of opinion. Because I believe the information contained in the following article, which appeared in this morning's Washington Post, will be useful to all of us, I am asking that it be included in our RECORD:

ANTI-INFLATION POLICY BACKED BY ECONOMISTS—RESEARCHERS' REPORT CALLS FOR FULL TAXATION, CURBS ON BANK CREDIT

(By Alfred Friendly)

Four of the Nation's leading economists yesterday gave firm backing to the administration's taxation and price-wage policies for inflation control, but took sharp issue with the Treasury's pegged-price program for Government securities.

They supported, instead, a view associated with the Federal Reserve Board that private credit extension should be cut through tightening of bank reserves, although this entails higher interest rates on Government bonds.

The economists stated their views in a report prepared for the influential Twentieth Century Fund, a research foundation endowed by the late Boston merchant, Edward A. Filene.

The team of experts was headed by John M. Clark, professor of economics at Columbia University. Other members were Theodore W. Schultz, chairman of the economics department of the University of Chicago; Arthur Smithies who holds the comparable post at Harvard; and Donald H. Wallace, director of the graduate program of Princeton's Woodrow Wilson School of Public and International Affairs.

Their study, one of the most forthright and uncomplicated to appear on the economics of the defense program, had as its basic theme the argument that direct controls on wages and prices can only be supplementary to, not substitutes for, the measures that attack the real roots of inflation.

The three basic methods, their report said, are:

1. Pay-as-you-go taxation to cover completely the costs of the defense program and regular Government expenses.

2. Limitation of bank credit, even at the cost of higher interest rates on Federal and other borrowing.

3. A truce on customary contests of bargaining power and pressure among the interest groups of labor, business, and farmers.

The report emphasized that the present situation was quite different from that at the outbreak of World War II. At that time, what was demanded was intense economic efforts of relatively short duration. Now, what is needed besides a rapid build-up of armed strength is a state of military readiness that may have to last for the indefinite future.

In World War II direct controls were necessary and worked, for the short term, with some effect. But now, the economists said, "price control must have far better support from fiscal, credit, and debt management policy if it is to have a chance for survival."

The report insisted that inflation cannot be controlled if excess demand for goods is allowed to compete for the limited supply.

The report said, "Inflation is, among other things, a sign that the country is giving divided support to the national effort. If we are willing to appropriate money for defense, but unwilling to take it away from ourselves, we are trying to escape the basic fact of diversion of resources, and the necessity of initial curtailments of civilian supply.

"We are supporting national defense with one hand and sabotaging it with the other."

Principal conclusions and recommendations of the four economists:

Taxation: "It is both possible and necessary to depend on taxation to finance the defense expenditures and to remove the bulk of inflationary pressure." The minimum objective should be an increase of tax revenues by $16,000,000,000. Of this, corporations can pay 4,000,000,000, through higher normal rather than excess profits rates; personal income tax should yield nine to ten billions; and the rest should come from excises.

"From a standpoint of absorbing purchasing power, there is a case for heavy excises on all goods in short supply."

Monetary and credit policy: "The Federal Reserve System must be enabled to tighten bank reserves." It failed to follow a restrictive credit policy since the outbreak of the Korean War, but if it had, it could have blocked the monetary expansion that occurred since then and "prevented much of the inflation."

The policy of not letting rates on Government securities rise has deprived the Federal Reserve of its major weapon to tighten bank lending. "It is long past time that this shortsighted policy be abandoned," even though reviving the Federal Reserve's power in the open market "would doubtless involve some increase in Treasury interest payments."

Wage and price controls: Some increases in wage and price ceilings will be necessary to obtain desirable increases in output. Therefore, "rigid adherence to the original frozen prices and wage rates would be undesirable and indeed self-defeating."

"It is clear that some upward drift of the average of commodity prices and wage rates is probably unavoidable."

Flexibility is seriously hampered by the provision in the present law providing that ceilings on farm products cannot be fixed at prices less than parity.

Rationing: Consumer rationing will probably be required for some commodities, such as meat, but the rationing device should be used most sparingly, particularly because it is so "very expensive in manpower" in its administration.

Social security: Now is an appropriate time to increase the size and coverage of the social-security program, because "increased payroll taxes will absorb purchasing power, and the prospect of increased benefits will create a sense of security in the future that is now badly needed."

Government economies: "The possibilities of economy in the nonmilitary field are frequently exaggerated. We doubt that the most rigorous economy could achieve a reduction of more than one or two billions from the budget estimates of 1951-52."

CONGRESSIONAL RECORD
2/5/51