Fundamentals of Inflation

EXTENSION OF REMARKS

OF

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IN THE SENATE OF THE UNITED STATES

Monday, February 19 (legislative day of Monday, January 29), 1951

Mr. BENTON. Mr. President, I ask unanimous consent to have printed in the Appendix of the RECORD an editorial from the New York Times of February 15 entitled "Fundamentals of Inflation." This editorial deals with the current research into public policy of the famed business group, the Committee for Economic Development, on the first board of trustees of which I had the honor of serving as the vice chairman.

Since its founding 9 years ago the CED has taken leadership in the clarification of our fiscal policy. Now, as this editorial indicates, it is concerning itself also with monetary policy, a subject of such vital significance that many distinguished economists think our ineptitude in this area largely accounts for our failure to control the rise in prices of the past 7 or 8 months. Much of the recent testimony before the Joint Committee on the Economic Report has dealt with this and kindred subjects touched on in the editorial.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

FUNDAMENTALS OF INFLATION

We think the country as a whole will echo the demand of the Committee for Economic Development that it is high time the administration established a clear and consistent anti-inflation program.

The Committee for Economic Development points out that while so-called direct price-wage controls have their place in a major defense effort, they do not deal with the causes of inflation, and unless those causes are removed such controls can do more harm than good. This, of course, is sound common sense. Direct controls, in this respect, are like a loan granted to a State on condition that it undertake certain constructive financial reforms needed to insure its solvency. Unless it moves immediately to put those reforms into effect the whole benefit of the loan may be negated, leaving the borrower worse off than before. And in the hands of an administration that is uncertain in its convictions and inclined, all else being equal, to pursue the course of least political resistance, controls partake of the nature of such a stop-gap loan in another respect. They serve to create temporarily an impression of economic stability, and thus are a temptation to the administration to relax its fight on inflation by those techniques which deal with its real causes.

There is nothing complicated about dealing with price inflation, given the will to deal with it courageously, no matter what group is hurt politically. But we may just as well abandon any hope that we can defeat it so long as we continue to protect the vested interest of the wage-earner in the 40-hour week and escalator wage clauses; so long as we permit the farm bloc in Congress to tell us that we must make an exception to the over-all commodity price freeze of the products in which it is particularly interested; and so long as we place the protection of an artificial parity for Government securities higher in our scale of values than the protection of the dollar.

Fundamentally, price inflation is the result of an unbalance between the volume of goods and services available, on the one hand, and the volume of purchasing power, on the other hand. The only way it can be overcome, therefore, is by increasing the supply of goods and services, or by reducing the supply of purchasing power, or both. There has been a good deal of lip service in Washington recently to the idea of solving the problem by increasing production. The Committee for Economic Development points out that while increased production may be a long-term solution, it won't immediately stabilize the economy.

We would go further than this. We think that the talk about defeating inflation by increased production is largely irrelevant so long as the defense effort continues. The reason it is virtually impossible to attack inflation from the supply side, once a war or a major rearmament program has gotten under way, is that you are dealing with an economy that is operating at total capacity, or close to it. Even if we could double production tomorrow the inflation gap represented by rearmament production would still remain. For while such production creates purchasing power just as effectively as the production of civilian goods, not a dollar of that newly created purchasing power is offset, inflationwise, by increased civilian consumption.

The sooner we put increased production out of our minds, therefore, as a practicable solution of the inflation problem and concentrate on the demand side the sooner we can hope to see some tangible results. And when we start to concentrate on demand or purchasing power we should be on guard lest we be misled by the oversimplificationists. The expansion of bank credit, for example, is not the sum total of increased purchasing power. Broadly speaking, three different kinds of purchasing power enter into the problem of price inflation. They are: Purchasing power that is created currently, such as wages; purchasing power previously accumulated (savings), and what may be called future purchasing power, which would be purchasing power created by the banks to be used now and repaid later.

This is the basic situation that has to be met in formulating and carrying out an anti-inflation program. That being so, the general thesis of the Committee for Economic Development is completely logical. It calls for rastic steps to cut Government spending; sharp and prompt tax increases, designed to restrain consumer spending as well as to increase revenues; a national program to encourage saving, and, finally, the adoption of a policy under which the Federal Reserve would be freed from its responsibility to peg the Government securities market, so that it could devote itself to the task for which it was created, the task of stabilizing the money market and protecting the purchasing power of the dollar.