

COMMITTEE TO FIGHT INFLATION

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# A Policy Statement

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**This statement was issued by the Committee to Fight Inflation on June 23, 1980, at the American Enterprise Institute, Washington, D.C.**

**Arthur F. Burns, chairman of the Committee to Fight Inflation, is distinguished scholar in residence at the American Enterprise Institute.**

**Copies of this statement are available from:  
Dr. S. L. Jones, Secretary, COMMITTEE TO FIGHT INFLATION  
American Enterprise Institute  
1150 Seventeenth Street, N.W.  
Washington, D.C. 20036**

## Committee to Fight Inflation

*Chronic inflation at unprecedented levels is a serious threat to the stability of our system—economic, social, and political. Since efforts to control inflationary pressures have not been successful, a serious crisis of confidence has developed. The growing public concern about the destructive effects of inflation has created an opportunity to marshal and maintain broad support for effective anti-inflation policies. A committee of private citizens with extensive experience in government has been formed to promote such policies. Founding members of the committee include:*

ARTHUR F. BURNS, *Chairman*, former Chairman of the Board of Governors, Federal Reserve System.

HENRY H. FOWLER, *Vice Chairman*, former Secretary of the Treasury.

W. MICHAEL BLUMENTHAL, former Secretary of the Treasury.

JOHN W. BYRNES, former Ranking Minority Member, Ways and Means Committee, U.S. House of Representatives.

FREDERICK L. DEMING, former Under Secretary of the Treasury.

C. DOUGLAS DILLON, former Secretary of the Treasury.

PAUL W. McCracken, former Chairman of the Council of Economic Advisers.

GEORGE H. MAHON, former Chairman of the Appropriations Committee, U.S. House of Representatives.

WILLIAM McC. MARTIN, JR., former Chairman of the Board of Governors, Federal Reserve System.

WILBUR D. MILLS, former Chairman of the Ways and Means Committee, U.S. House of Representatives.

GEORGE P. SHULTZ, former Secretary of the Treasury.

WILLIAM E. SIMON, former Secretary of the Treasury.

JOHN J. WILLIAMS, former Ranking Minority Member, Finance Committee, U.S. Senate.



# A Policy Statement

## *Committee to Fight Inflation*

The problem of inflation has reached crisis proportions in our country. From an annual average rate of rise in prices of 1.9 percent over the eleven years ending in 1967, inflation accelerated to a rate of 6.3 percent over the next eleven years, ending in 1978; and then to a rate of 13 percent in 1979 and to a still higher rate in early 1980.

The rapidity of price advances will abate during the recession that is now under way; indeed, the most recent price indexes suggest that such a process has already begun. We must be alert to the danger that this slowing will lead to complacency about inflation, and that the concurrent rise in unemployment will again elicit highly stimulative fiscal and monetary policies. In that event we can be certain that prices will be rising more rapidly at the start of the next economic recovery than in any preceding recovery, that inflation will have gained strong new momentum, and that the hope of ending it in the reckonable future will sharply diminish.

The urgency of dealing with the inflation problem can hardly be exaggerated. By causing economic imbalances, inflation has been the primary channel through which recession—and with it widespread unemployment—has come twice to our country since 1973. The signs of havoc brought on by inflation are all around us. Inflation has created large and wholly arbitrary redistributions of income and wealth. Inflation has eroded the real value of everyone's money income and monetary assets. For example, the real value of a 1967 dollar had declined to 41 cents by early 1980.

Inflation has thus been depriving people of effective means of planning for their future and of providing against the contingencies that arise in life. It has been destroying the self-respect of many of our citizens by forcing them onto the welfare rolls. It has damaged our nation by increasing anxiety, and by breeding discontent and social tension. It has reduced the efficiency of financial markets and of the workshops of our economy, and it has made our economy more vulnerable to recession. Ultimately, inflation threatens the survival of free competitive enterprise and of our democratic institutions.

Our rapid domestic inflation has already substantially reduced the value of the dollar abroad, and with it the power and prestige of the United States in the international arena. As infla-

tion continues, it poses a continuing threat of flight from the dollar, and thus of further contraction of its value in foreign exchange markets. Such a development would intensify domestic inflation by raising the costs of all imported goods, and it would further weaken our country's international prestige.

We cannot afford delay in taking the measures needed to restore general price stability in our country. If we are to rout inflationary psychology we must act with determination to see the matter through despite the short-run costs that will be incurred by some, perhaps many, of our citizens. Under present circumstances, we must forswear superficially attractive but ultimately counterproductive measures such as mandatory wage and price controls.

We urge the prompt adoption of a program dealing with the following areas:

*1. Fiscal Policy.* During recent decades there have been sharply rising pressures on Congress to adopt new spending programs and to expand existing programs. Pressures for spending cuts or tax increases have been much weaker. The result has been a virtually unbroken string of budget deficits over the last twenty years. Moreover, these deficits have been generally increasing both in dollar amounts and—since the 1950s—as a percentage of the gross national product. This persistent pattern of deficit financing has contributed powerfully to the impetus of inflation and to the rapid spread of inflationary psychology.

In the Budget Act of 1974 Congress adopted new procedures designed to deal on a unified basis with separate revenue and expenditure decisions. While these procedures represent an important step forward, it is essential that the ability of Congress to resist pressures for deficit financing be considerably strengthened. We recommend a further revision of the budget process that would make it much more difficult to run deficits. Our proposal would require a balanced budget unless a deficit is authorized by something more than a simple majority—say, two-thirds—of each house of Congress. Such a measure would demonstrate to the public that the Congress is finally ready to take stern and responsible action to end the persistent budget deficits that have nourished our inflation.

Deficits can, of course, be eliminated either by raising taxes or by holding down expenditures. We believe that the national interest would now be best served by restraints on expenditures. We recognize that significant overall savings are becoming diffi-

cult to achieve partly because of the requirements of national defense but also because of rapid growth of social security, federal pensions, and the other entitlement programs that are automatically linked to rising prices. We therefore urge the Congress to consider proposals to weaken the tie between the price indexes and outlays under the entitlement programs, insofar as that can be done without injuring those most in need. In addition to its beneficial effect on federal spending, such a course would strengthen the constituency opposed to inflation, and it would also set a constructive example for the private economy.

2. *Monetary Policy.* The ability of the Federal Reserve System to combat inflation has in the past been limited by lack of understanding and support in the Congress. Although the System has at times stepped hard on the monetary brakes, its policies have at other times accommodated a good part of the inflationary pressures in the market place. At present, the general thrust of monetary policy is appropriately restrictive. The Federal Reserve has been and will remain the faithful agent of Congress; but if it is to continue to combat inflation forthrightly and with vigor, it must have the strong and steadfast support of Congress. We recommend that Congress adopt a concurrent resolution stressing the importance of restrictive monetary policies in furthering the goal of ending inflation.

3. *Government Price-Raising Actions.* Over the years, our government has persistently acted to raise prices by measures that served to boost incomes and protect employment of particular groups at the expense of the public at large. These measures include tariffs, import quotas, marketing agreements, and other restraints on international trade. They include farm price supports and acreage restrictions that raise the cost and reduce the supply of food. They include the minimum wage and Davis-Bacon legislation that tend to raise labor costs throughout the economy. They include also restrictions on competition in the transportation and numerous other industries. In view of overwhelming evidence of the power of market competition to serve the public interest by holding down prices, it is vitally important, first, that Congress stop raising prices by enacting new restraints on trade; and second, that it proceed methodically to dismantle, or at least weaken, much of existing legislation that impedes the competitive process.

4. *Government Regulation.* During the past decade Congress has poured out a flood of legislation in response to public concerns about degradation of the environment and hazards to the health and safety of both workers and consumers. Much of this legislation and the regulations promulgated under it have been running up costs and prices unnecessarily. It is essential that there be a thorough reform of outstanding laws and regulations, and more careful design in any future measures, so that basic national objectives may be achieved at minimum feasible cost. The reform should take full account of costs as well as benefits; it should seek the most efficient means of reaching agreed-upon goals; it should give careful attention to the pace at which changes in processes, practices, or products are mandated; and it should provide expeditious procedures that yield timely and definitive conclusions.

5. *The Environment for Business Investment.* Inflationary pressures have been fostered in recent years by a flattening-out of the trend in the output of goods and services per manhour, and most recently by an absolute decline in productivity. Our country needs urgently to encourage productivity-enhancing capital investments and, more generally, a greater willingness by business firms to innovate and assume risks. The Congress should promote these objectives by scheduling reductions in business taxes in each of the next five to seven years—the reduction to be quite small in the first two years but to become substantial in later years. This sort of tax legislation, supplemented in due course by reduction in the capital gains tax, would not run up the budget deficit in this critical year or next; it would thus scrupulously avoid fanning the fires of inflation. Its passage would, however, release powerful forces to expand capital investment, thereby improving the nation's productivity and exerting downward pressure on prices later on. Such tax legislation would also help in the more immediate future to ease the difficult adjustments forced on many businesses and their employees by the adoption of other parts of our suggested program.

6. *Other Measures to Increase Productivity.* We urge that other feasible means be adopted to increase the productivity of our economy. These should include larger private and public outlays for research and development; more carefully designed manpower training programs; productivity councils in individual plants, shops, and offices in communities across the country, in which employees and employers can pool their ideas for improving the

efficiency with which their tasks are discharged; and other means of encouraging cooperative efforts of labor and management in furthering their common interest in greater efficiency.

7. *Energy.* The problem of energy is intertwined with that of inflation. On the one hand, skyrocketing costs of imported oil have contributed to our domestic inflation; on the other hand, governmental actions to limit the rise in domestic prices of oil products have weakened incentives for conservation and for expansion of the domestic supply of oil and of alternative sources of energy. We believe that, despite the short-run effects on the price level, the rapid decontrol of oil prices—and perhaps the addition of consumption taxes—would serve the national interest by speeding the day when our nation regains substantial independence in the energy area. Only then will we be free of the threat to the stability of our price level—and to our national security—that is posed by present dependence on foreign energy supplies.

### *Concluding Comments*

Our critical problem of inflation did not emerge suddenly. It has been gathering force for many years. Its roots lie deep in the political and philosophical attitudes that emerged from the Great Depression of the 1930s.

While our inflation is largely a consequence of government actions, those actions in turn reflect excessive public demands for the good things of life—rising living standards, better provisions for income security, more assistance to the disadvantaged among us, a cleaner environment, fuller protection of the public's health and safety, and special benefits for a growing number of interest groups. Each of these demands is thoroughly understandable. Together, however, they release persistent inflationary forces—first, by requiring of government greater outlays than tax revenues can finance, second, by demanding of the private economy greater output than its languishing productivity can support.

At best, the task of ending inflation will be difficult. But there is no hope of eventual success unless the American people come to understand the nature of the problem and are prepared to support the stern measures required to solve it. We see some signs that the needed understanding and support are growing. And we look forward to the time when our nation will again experience the economic progress that is possible in an environment of generally stable prices.