

Our Changing Economy

New Administration Faces Old Dilemma

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FOR SOME time past, fear of inflation has made cowards of us all and now the pale cast of its foreboding is already apparent in the cautious statements of our new leaders.

Afraid to lower interest rates for fear people will transfer funds abroad and thereby cause a further outflow of gold, we discourage residential building by requiring borrowers to pay 6 to 6¼ per cent interest for mortgage funds.

Afraid to lower taxes or increase public expenditures for fear that such action will cause wage rates and commodity prices to rise, we allow millions of people to be unemployed, despite great unfulfilled needs at home and abroad.

Afraid even to get a "minimum wage" for all employers, we allow large numbers of men to be exploited—to work for 50 or 75 cents an hour. Scarcely more than the price of a sandwich these days.



Brown

Inflation Is No Idle Fear

Inflation—and by this I mean even a small but persistent rise in the indices of wholesale and consumer prices—is undesirable at any time. It is the most regressive type of taxation ever devised; to low-income groups, it is more burdensome even than excise and sales taxes, most of which do not apply to food. It gives rise to windfall profits for a few, at the expense of the many. Not only is it inequitable, but it induces unwise investments and maladjustments that cause subsequent unemployment and other losses.

Moreover, at a time like the present when payments to those abroad can be met only by a huge outflow of gold, inflation might necessitate a curtailment of certain interna-

Harold B. Dorsey is snowbound. His Monday column, Economic View, will be resumed next week.

tional transactions or an adjustment of exchange rates, either of which would be very disruptive.

But if the waste of men and machinery is the alternative to inflation, then ours is a poor economic system about which we better not boast. Is this the necessary alternative?

Without imagination and courage to invoke new controls, we must, I think, have one or the other, or some of both, for it does appear that wages and prices tend to rise before we achieve full employment. This creates a dilemma: to invoke fiscal and monetary restraints to prevent inflation will also prevent the full utilization of resources; to invoke such restraints only after full utilization of resources is achieved will be too late to prevent inflation.

The Samuelson report to President Kennedy recognizes this as a possible dilemma and concludes by mentioning that it may be necessary "in the 1960's to meet head on the problem of price creep."

Price Stability Without Unemployment

But how? Why such reticence about discussing now such "new approaches" as may be necessary? Well most of us are understandably skittish about calling for any kind of direct wage and price controls or restraints.

Yet, somehow, we must resolve the dilemma of inflation or unemployment. We must find new ways to keep prices from rising. We must dispel the fear of inflation, not by recognizing price stability as a "goal" of national policy. That it must never be. But we must recognize that it is a necessary condition to achieving a full and wise employment of our resources and at the same time meeting our obligations abroad.

The public has an interest in collective bargaining and the time may have come when it must be a party in many cases. The "easy out" of raising wages and prices has been practiced too often. The public has an interest in curbing mergers designed to reduce competition and taxes. It has an interest in eliminating scores of restraints on trade that make prices "sticky" and in some cases "fixed." But the public does not realize how much government intervention is required to preserve competition—and to prevent inflation—in our type of economy where, because of the size of firms, technology, advertising, tariffs, financial ties and legal privileges, markets are fragmented and closed off.

Fear of inflation must not be allowed to justify the present waste of resources. The command of Isaiah to "undo the heavy burdens . . . (and) let the oppressed go free," that the President quoted in his Inaugural Address must not go unheeded. But unless we find new ways to influence wages and prices and dispell the fear of inflation, there will be no undoing of heavy burdens or freeing the oppressed. "Enterprises of great pitch and moment" that the President has talked about "will lose the name of action."