WAGE, PRICE AND PROFIT CONTROLS

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WAGE, PRICE, AND PROFIT CONTROLS

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MR. MUNCY: General Vanaman and students: The rollback of prices of automobiles ordered by ESA last Saturday, I think is significant because it marks the transition from a period of mobilization, where we were depending upon indirect controls, such as credit, allocations, and priorities, to a period presumably where we are moving into direct controls. I think it is especially timely, therefore, this morning--particularly in view of the headlines of the morning--that we have scheduled a talk on price, wage, and profit controls. We are also fortunate that our speaker went through the last war in various capacities and control agencies here in the Government. I call attention particularly to his work as a special assistant in the Office of Price Administration.

It is a pleasure for me to introduce Dr. Arthur E. Burns, Professor of Economics and Dean of the School of Government, of George Washington University. He will speak to you on the subject, "Wage, Price, and Profit Controls." Dr. Burns.

DR. BURNS: In discussing this matter of wage, price, and profit controls, I want to make a few introductory remarks indicating what I think to be the main problem. In the first place, whatever policy we adopt, whether direct price controls or an intensification of tax measures, it is going to be a long-run policy because the difficulties we are facing certainly seem likely to extend many years into the future. I say this because Russia has had ample opportunity to make some sort of accommodation with us in the last four or five years and hasn't done so. As a consequence, there is very little likelihood that we can look forward to any kind of international stability for many years to come.

The military procurement program is by that fact, a very long-run matter. In terms of size, perhaps the minimum we can look forward to in the way of military procurement is 25 percent of the total goods and services produced in this country. I say this is probably a minimum. It could easily be more than that. Another point is that this military procurement, let us say, of 25 percent of the gross national product will be largely at the expense of civilian production and civilian consumption. Here we have quite a different situation from that faced in 1940 and 1941.

Consider another point. Since rearmament is likely to be a long-run problem and is to be chiefly at the expense of civilian production and consumption, economic policies should be devised which will provide the utmost flexibility and adaptability and incentive in the operation of the economic system. This is important in order to minimize the impact of the shift of the military procurement program on the civilian economy and also to make the job of military procurement easier. I am not suggesting in these remarks that I am in favor of what is commonly called the "business as usual" approach to our problem--far from it--but I think with the long-run prospect of very substantial military procurement, the balance of the economic system ought to be given as much flexibility as it can take.

Coming now to policy, the objects of economic policy at the present time may be stated as: First, to produce as much as military needs require; second, to produce as much for civilian purposes as is possible, taking full account of all military requirements; and third, to achieve both of these production goals with a relatively stable level of prices. It seems to me that economic stabilization wouldn't make very much sense if we did not include this third point, namely, relatively stable prices over a long period of time. These are the objectives of policy.

There are some pretty substantial difficulties, I think, that ought to be mentioned before getting into some of the detail of policy. One is that at the present this economic system is operating at pretty close to full employment. Relatively full employment is probably the best term to apply to it. This means, as I mentioned awhile ago, that military procurement must come largely from a shift from civilian to military production. This again is a contrast with the period of 1940 and 1941 when a very great increase in military supplies was possible without cutting into civilian goods and production.

Now, to be sure, automobile production was stopped and many other durable consumer goods were not produced. But in general the war effort from 1940 to 1945, from a production standpoint, was largely a matter of increasing the real output of the country, not of diminishing the aggregate of goods and services available for consumption. Of course, certain kinds of consumer goods were not available, but on the whole there was as much for civilian consumption--taking all things into account--throughout the war, as there was in the years before the war. That will not be the case at the present time. Civilian production and consumption will have to be reduced in order to permit resources to be used for the production of military goods.

This, I think, is one of the very important points that has to be kept in mind, and it means literally this: The expansion of military procurement in many ways is going to be more difficult, more troublesome now than it was in 1940 and 1941. We do not have much slack in the economic system. We had a great deal of slack in the economic system in 1940—the estimates indicate eight million persons unemployed. The expansion of military production in those days meant in part absorbing unemployed workers into the productive system. We haven't any substantial number of unemployed workers to absorb at the present time, the latest estimates indicate less than two million unemployed. Even at the height of the war effort in 1944 and 1945 we never fell below 1.5 million unemployed, which may be taken as something of an irreducible minimum. There will always be some people in between jobs; some people fired for one reason or another; some people not very well who can't work; some people temporarily tired of work; or some other reason, which might explain why 1.5 or 2 million persons are unemployed.

When a great military procurement program diverts goods from normal use, the formulation of policy becomes more difficult and more important. Very generally, I think there are two directions in which policy can go. We are taking both directions right now. One is the direct approach, to put controls on prices—such as the present attempt at control of automobile prices—and on wages and to control profits rigorously through an excess-profits tax. I call this kind of policy a "hold the line" or "keep the lid on" policy.

The other direction in which policy can go is the fiscal and monetary approach to the problem of economic stabilization in a mobilization period. This involves increasing taxes to cover all or a great portion of the increased military expenditures out of current tax revenue, a reduction of nonmilitary governmental expenditures, a reduction of consumption expenditures by taxation and credit restriction, and a reduction of business investment expenditures for projects which are not regarded as essential, for either military purposes or civilian purposes. These are the two directions: First, the direct approach of ceilings on prices, wages, and profits; and second, the attempt to get stability by fiscal, monetary, and tax measures.

Actually, these two are not mutually exclusive. We probably will try both. We are trying both now. The real point is—Which policy is to be given the greater emphasis? What is to be the main effort in policy—the fiscal and monetary approach or the direct approach? I think the choice is a very, very important one.

At this point I would like to offer my conclusion. If we are to have stability in the long run, the prospects are that the fiscal and monetary approach will be more fruitful. The direct approach, in my estimation, will not achieve stability over a long period of time. That is my conclusion generally. I want to go on and discuss some of the reasons why I come to that conclusion. The conclusion, I suspect, is not altogether popular because when prices are going up, the first impulse of most people is to say, "Control the price; put a ceiling on; don't let the rascals make too much profit out of the war effort."

First, I want to indicate generally what can be achieved by the fiscal and monetary approach to economic stabilization. The main points in such a policy involve an increase in taxes--personal income taxes, corporate income taxes, and certainly excises. The purpose is to divert current income from private hands to the Government. Another point I mentioned was a reduction of nonmilitary expenditures. There is not a great deal to be saved in this respect--perhaps a few billion dollars--but in the period ahead a few billion dollars here and there are worth saving. The third is a reduction of civilian spending, and that would be achieved principally by taxes and partly through borrowing from the public at large. The fourth is a reduction of business spending; this is partly a matter of tightening up even more on bank credit for business, in fact to go beyond that and make a further reduction in bank credit for civilian purchases. This is the general direction of policy which has as its purpose the control of aggregates and averages.

I want to make this point very clear. This type of control is concerned with controlling large aggregates, large aggregates of output, income, and expenditure and averages of prices and wages. I said at the outset that we are in a period of relatively full employment and very high levels of production. We cannot provide the military requirements by further increasing our production. We can do a little bit in that direction. The principal job is to divert production from civilian to military purposes.

Aggregate production over the next year or two will not increase very much, if at all. That being the case, the job is to try, through these various policies to keep the total amount of money spent for the gross national product in balance with that gross national product. Let us consider it this way: Suppose at the present time we give the total goods and services making up our gross national product a value of 100 percent. The total amount spent by consumers, by business for investment purposes, and by government for military and nonmilitary purposes also can be regarded as equivalent to 100. Over the next few years physical output is not likely to rise much above that 100 figure. The real question is, What is going to happen to demand and to money expenditure?

To achieve a general degree of stability, we have to keep that volume of expenditure down to 100 or close to it. If demand goes up, let us say, from 100 to 110, 120, or 125 and the physical goods and services remain the same, obviously, prices in general must go up. You might say, "They won't go up if there are direct controls." They might not go up immediately if there are direct controls. I think it can be laid down as a very strong probability that they will go up somewhat, and they will go up a great deal later on. To avoid inflation the problem is to tailor the total demand for goods and services to the total amount that can be produced.

There is another part to the problem. The gross national product at the present time is divided up about like this: five for military at the present time and 95 for nonmilitary. That is roughly what the percentage would be. In a year, the probability is that it will be 25 for military and 75 for nonmilitary purposes. The job of fiscal and monetary policy is to reduce civilian spending in step with the reduction in the amount of goods available for civilian purposes. The reduction in civilian spending and output ought to go hand in hand. If not, long-run stability is very unlikely.

The point is that we not only need to balance the total of the goods and services and the total of expenditures, but we need especially to balance the total goods available for civilian purposes and the total amount of money that people spend. This means a rough and tough tax policy and a very tight credit policy so far as business is concerned. What this means in the long run is that there is no pressure from the side of aggregate demand or expenditure to force up general prices. Such a policy, if it were followed, would assure, in the long run, stability in average prices, stability in average wages, and stability in profits over that period of time.

Consistent with this general position would be a good deal of variation of individual prices. Many people, probably most of them, think that this is not desirable. From an economic standpoint, such price flexibility is most desirable. Some prices might fall; other prices might rise. That would certainly be expected. The rise of some prices would simply be the result of a relative increase in the demand for those goods, a relative decrease in the supply of those goods, and the higher price would cut off the consumption of those goods for many people. Other things would decline in price which would encourage greater consumption. But the average of prices would remain pretty stable. Some prices, however, would undoubtedly need direct controls. Some items which are very important in the cost of living might need this treatment. But such selective price controls would be a relatively small problem compared with trying to control everything by direct means.

Such a fiscal policy is likely to bring about generally stable average wages. Particular wages might vary to be sure, but, again from an economic standpoint, variation of relative wages is normally the means by which labor shifts from one kind of production to another. The general policy of tailoring the aggregate demand to the amount of civilian goods and services available would prevent pressures from forcing up wages and prices as a whole.

It might be said that unions will attempt to get wages up, that manufacturers and other sellers will try to take advantage of a situation and put their prices up, too. There is one point to be kept in mind—that the ability to get higher prices, the ability to get higher wages, and the ability to get higher profits depend upon there being a rising demand for the goods and services to enable those prices and profits and wages to go up. In a period when demand is not rising, it is simply difficult for sellers of goods generally to raise the prices or for labor generally to get more wages or for profits to rise.

Let me put the point this way: The argument so far is to maintain a fairly stable value of total income and total goods. If you inspect the figures on wages and profits, you will notice that normally labor gets 65 percent of the income of the country and about 11 percent goes into profits. That was true in 1929; it was true in 1940 and 1941; it has been true in the postwar period. What I am suggesting here is that if the aggregate is maintained at a stable level over a period of time, on the basis of past experience we can expect that the share going to labor and to profits will behave as they have before in similar periods of high-level prosperty. If the income shares remain the same as before—65 and 11 percent—there is no likelihood that general increases will take place. After all, wages, profits, and prices are governed, among other things, by the total demand for labor and for goods and services. Fiscal policy would maintain a fairly stable total demand and at the same time cut down civilian demand to the size of the goods available for civilians. There would thus be little prospect of inflation of prices, profits, and wages under this kind of policy.

We are partly moving in the direction of such a fiscal and monetary policy—taxes have been increased on personal incomes, some excises have been added, corporation taxes have been increased and credit has been curbed by the Government.

We are also moving in the other direction—playing safe presumably—by imposing some direct controls on prices and wages and by a very heavy excess-profits tax.

The point needs to be stressed: That general ceilings on prices and wages are only necessary when aggregate demand or expenditure gets out of balance with supply. That is the only reason for general ceilings on prices and wages. If that were not true, there would be no point to general price controls or wage controls. So I say we can state this, that the necessity of general ceilings on wages and prices is evidence that demand in the aggregate is exceeding the supply in the aggregate.

Price and wage control then are designed merely to disguise the inflation which is already under way. Direct price and wage controls are regarded widely as a means of preventing inflation. I would say that price and wage controls are merely a method of disguising inflation, not preventing it. Price and wage controls would not be necessary if we were not having inflationary pressures.

Some evidence, I think, on this point can be adduced from the last war. Throughout the war we did not prosecute a very vigorous tax policy. The Government raised by borrowing some 210 or 215 billion dollars, a very enormous amount. If the Government had not imposed ceilings on prices in 1942, we would have had a first-class inflation during the war. The ceilings simply held that inflation down. It disguised the inflation. But in 1946 controls were removed and we really saw what we had been controlling all along—inflation. We had the inflation not so much during the war as after the war. That will be as true this time as it was last time. If principal reliance is placed on the short-run problem of keeping prices down, we will run into long-run inflation.

There are some other aspects of direct price controls which should make one hesitate to rely very heavily on them. We found during the last war that ceilings on prices led to a very considerable quality deterioration. Quality deterioration is simply a concealed way of bringing about a price increase.

Another consequence is that very often we get an odd assortment of commodities when there are direct price controls. Industry tends to shift away from the lower-profit to the higher-profit products. The higher-profit items may be less important to consumers than the low-profit items. Many instances of this occurred during the war. Price flexibility would prevent such distortions. But general price controls prevent many needed adjustments in output from taking place.

Under direct controls it is difficult to get labor to shift into the more necessary jobs and away from the less necessary jobs. With a considerable degree of wage flexibility, these shifts in labor readily occur. In the absence of relative wage variations some measure of administrative direction of labor would be required.

Moreover, comprehensive controls of prices and of wages entail a perfectly enormous administrative job. For one thing, price controls necessitate rationing. It is not merely a matter of putting price controls on. Price controls, if necessary, inevitably involve rationing. It is an enormous administrative job to pelice the price orders and to set up and regulate a rationing program. The problem of wage controls is extraordinarily difficult, especially with so many wage contracts now tied up with the consumer price index. In general, the mere admin-istration of a general control system is an extraordinarily heavy job.

When we look at controls by way of monetary and fiscal policy and controls by way of direct measures, as I said earlier, these are not necessarily exclusive kinds of policy. It is a matter of emphasis. Even if the Government did vigorously pursue the fiscal and monetary approach to keep spending down to the size of goods and services available, there would be prices here and there that would require some regulation. If we reduce total consumer demand 25 percent and total civilian output 25 percent, those large percentages conceal this sort of thing! Some civilian goods might go down 50 percent in supply and only 10 percent in demand, and prices, if completely uncon-trolled, would rise too much. Situations of that sort would require direct controls. But the emphasis can go either in the direction of fiscal or in the direction of direct controls. As I said awhile ago, my conclusion is that in the long run there are no prospects of stabila-tion if policy has to take the direct price and wage controls line. If it does, that in itself is evidence that instability is underneath, the lid is being kept on, and, as soon as the lid is removed entirely or partly, inflation takes over.

The fiscal and monetary approach attempts to get at the source of the trouble in the first place, namely, to prevent the inflationary influences from getting under way. Either way it is going to cost something. If it is the fiscal and monetary approach, it is going to cost more in taxes. Obviously, that will apply to each of us. The cost will be in taxes and the cost will be currently borne. A lot of people think the cost might be somehow avoided by putting a limit on prices right away. Well, in the short run the cost might be avoided if price controls are effective, but in the course of time, the price is paid through the inflation which follows the suspension of controls whenever the emergency is over.

The cost has to be borne. There is no avoiding the cost of a large military procurement program because the labor that goes into it is not producing anything which will add to the productive wealth of the country in the future. I am not disparaging by any means the prosecution of the military program. It is necessary to save this country but the point is that military production does not add directly to the production of future goods and services. As a consequence, if the effort is financed by the creation of bank credit, then later, when controls are off, prices rise, and the costs are then borne which might have been borne during the war by a vigorous application of increased taxes.

One final point--If the cost is deferred to a large extent by the immediate imposition of price and wage controls, then inflation occurs later. This would mean that those who bear the heaviest burden now, namely, the men in action, will, when they get back later, also bear the costs of inflation.

Thank you.

QUESTION: I was wondering how you could administer a corporate tax that wouldn't tend to reduce production, if you would care to comment on that?

DR. BURNS: Well, businessmen say that any corporate tax reduces production incentives. I don't think I would agree with that. I don't know how high the tax can go safely. The Senate has established a 47 percent tax. It might be that something up as high as 60 percent or 65 percent would not seriously interfere with incentives. By incentives, I mean new developments. That is a guess; I don't know. I think probably what you have in mind is the distinction between excess-profits tax and the corporate tax, and I think any excess-profits tax would reduce incentives more than almost any corporate-profits tax.

QUESTION: You have advanced the thesis, which has become very popular since the war, that price controls do not prevent inflation--simply postpones inflation. I remember that in 1945 and 1946 Paul Porter and Chester Bowles testified before the Congress that if controls could be maintained into the postwar period long enough so that the conversion from war production to civilian production might take place and we could get an aggregate volume of consumer goods available to meet the purchasing power, that would be the proper time to end controls rather than the time that controls were actually dropped. I wonder if you would care to go out on a limb and make a guess as to what would have happened to prices and the price structure if the advice that our price controllers gave in 1945 and 1946 had been actually followed through?

DR. BURNS: If it had been actually followed through, we would still have price controls because it was not merely a matter of reconverting to civilian production. After all, the current income resulting from the increased level of consumer production after reconversion, would have been sufficient to purchase that production. What about the accumulated liquid assets that were accumulated during the war? We would have had to maintain the controls long enough after reconversion to permit technological improvements to reduce costs and increase output greatly. Over a long period cost reductions and increased output would have offset the inflationary influence of these liquid assets. But this would have required many more years of price controls.

QUESTION: Dr. Burns, some of us during our rest period went through the same line of reasoning that you went through and came out with the same conclusion. People don't want taxes increased. To go along with that, they do want controls. So your thesis becomes an intellectual exercise and some academic knowledge is required so that you can figure out how to put it across with the people.

DR. BURNS: I substantially agree with you. It is obviously true that there is a strong urge to take the short-run way out, to keep prices down. All I say there is that, if we are interested in long-run stability, we have to determine a long-run policy and price controls are not that kind of policy. People must then choose between paying now or paying later. Perhaps they don't quite get the point that way. I don't know how to make the point clear. Somebody needs a national rostrum to make the point clear. The cost has to be borne either now or later.

QUESTION: Assuming it is not practical, I think you just agreed that we should run the whole show by these monetary and fiscal controls?

DR. BURNS: That is not my position. I said that is the emphasis.

QUESTION: I understand that, yes, but assuming this is the policy, I would like to assume a situation we might be in at the end of a protracted war. It seems to me there would be a tremendous build-up of demand for goods that people could not buy because of the cutback. Suppose there is less money available. I would like that little point touched on to find out if there isn't an inflationary trend any way after the war because of this tremendous demand; and, second, it seems to me just before the end of the last war, many people were worried lest we have a whale of a depression, a lot of comments directed that way. Might we not run into that sort of situation because of lack of money supply?

DR. BRUNS: Two good questions. Well, the first one first. With the conclusion of the big procurement program, there would have to be a reduction of taxes. Therefore, the people would have more money to spend on the things they want. The reduction of taxes would allow them to keep more money out of their incomes to satisfy this pent-up demand that developed during the war or during this mobilization period. The increase in civilian demand would be to a large extent the result of the reduction of taxes from current income.

Now the question, "Isn't that latent inflation?" I think it would be, but the inflation might not really get too great a hold. If the policy is really followed, there would not be built up during this semiwar period, or the war period, a great fund in war bonds, savings accounts, or checking accounts which could be used and added to current income in the future to boost prices. There would be pressures, yes, I agree, but with the reduction of taxes and the increase in the incomes available to consumers, there would be correspondingly a reduction of military production and an increase in civilian production. There are lots of nice balances to be maintained here. It would be difficult to maintain them, but in general that is the aim of fiscal policy.

QUESTION: Assuming that we have wage and price controls and that they have been placed on with the proper balance between prices and wages, and with wages normally being the greatest cost of manufacturing, why should the manufacturer turn out an inferior product? I don't understand.

DR. BURNS: Even assuming that we start with a base period price-wage relationship that works out pretty well, the conversion to a big military program will cause some costs to rise because of shortages of materials; substitute materials; the loss of labor to military jobs or to the Army, Navy, or Air Force; and the use of less efficient labor. Perhaps just the reduction of output for civilian purposes would entail a higher unit cost of production. There are lots of reasons. Starting out on the assumption that we freeze things with the relationships right, the relationships can get out of line for many reasons.

QUESTION: Dr. Burns, the Federal Reserve enunciated a policy of trying to combat commercial banks making loans on presumably nonmilitary expansion on a voluntary basis. I have read the first warning and the second warning and Mr. McCabe's plea for controls. What would cause such a hard-headed group as the Federal Reserve to adopt such a Pollyanna attitude towards this problem if they could do something about it.

DR. BURNS: Theoretically, they can do something about it. I say theoretically. The Federal Reserve can control the total amount of reserves in the banking system. It has either the open market operations technique or the increase in legal reserve requirements. There is still some increase that could be effected. If they really wanted to stop the creation of credit, they have the power now at hand--to raise these legal reserve requirements or to cut down total reserve by the sale of government securities in the open market. So far as the latter point is concerned, they are frustrated, because they are committed to a policy of maintaining the market for government bonds. The Treasury doesn't want its securities to fall. That is a limit to their actual power.

The other is, as I say, to increase legal reserve requirements. There is not much in the way of increase possible. They are within two points of the maximum reserve ratio for most banks and four points for the New York and Chicago banks. They do have the power; they are not using it. They can't use some of it. Presumably they think the warnings will restrain the banks. If the banks increase credit in the next four or five months, the Federal Reserve will probably have to use these powers to curb the situation.

QUESTION: I have two questions. One is whether, if we don't impose pretty general direct controls pretty early, the actual cost in premium will get completely out of hand. The other question is not related to it, whether with the increase of age of our pensioners, life insurance and such things are apt to go up on wage earners and we will find them in a state of acute distress if we don't impose controls and hold prices, at least subsistence, down to something reasonable?

DR. BURNS: Point one, imposing direct controls; point two, the fiscal and monetary approach. It is really the same question, Commander, whether it is better to control through the direct policy or whether it is better to hold down the aggregate demand for commodities so that the price in general will not go up.

QUESTION: I understood that you were in favor of heavy taxing which is bound to increase the prices on everything that goes into the military procurement.

DR. BURNS: Heavy taxing of you and me and lots of other people wouldn't affect prices.

QUESTION: Oh, yes, it would. Military people pay everything other people pay. It covers every phase, bid goods, everything you can think of that the military has to buy. We are taxed on all those items. We are taxing the Government and at the same time the Government is paying the cost; also the cost of all the subcontractors and sub-subcontractors, and all employees. The cost is bound to be added.

DR. BURNS: What you are saying is that all taxes are shifted, and I think that point can be disputed. I haven't found any way to shift my tax. I don't know whether you have found a way to shift your taxes. Income taxes are supposedly not shiftable, but the likelihood is that corporations do shift some of their income tax, especially when the market is strong enough to enable them to raise their prices. It is a very complicated question, but even industry will admit that it tries and possibly succeeds in shifting a portion of its tax to consumers. Most taxes prbably are not shiftable. Certainly most income taxes probably are not shiftable.

QUESTION: You are missing the point of what I meant to say. I am talking about actual cost of a product. The 47 percent tax added to the cost, what about those who have fixed incomes?

DR. BURNS: If the tax is applied to the product the Government buys?

QUESTION: If the tax is applied to the product the Government buys. If we don't have wage and price controls, how are the people who will buy ever going to survive? I gather you think that controls are no cure?

DR. BURNS: No cure, that is right. It might help in some cases but not as a general rule. I come back to my point, you might say a lot of these taxes are taxes on income and cannot be shifted. You may say that some wage earners, if the tax is increased om them, are going to ask for a wage increase to offset it. That is what you have in mind. If they can get a wage increase, they might succeed in shifting the tax, but remember the point to this is that, by holding total demand down through taxes, the possibility of getting a higher wage is not bright. There would be cases, yes, but in general wages are not likely to go up unless there is a demand for labor strong enough to allow those wages to go up. That demand will be strong enough if prices really are going up, but the curbing of spending power is designed to prevent that first influence which tends to drive up wages and prices. Skimming off civilian effective demand by taxes would keep that demand generally in balance with the amount of goods and services being made available for civilians. Some taxes do end up in prices of things that the Government buys; some taxes do not; some of them are not shifted.

QUESTION: Dr. Burns, I would like to assume that we go ahead with price and wage controls, with more or less emphasis on them rather than on fiscal and monetary controls, and then let us also assume that, as we go along, public sentiment becomes such that it is possible legislatively to shift over to fiscal and monetary controls and gradually relieve price and wage controls in order to get ourselves back on the proper track. Would you comment on that?

DR. BURNS: If it is a short-run matter, probably there would be no great complications. It might be that the imposition of these direct controls as an immediate dampening device could be followed later, if public sentiment accepted it, by higher taxes because of the increased difficulty of the military situation. When taxes would increase sufficiently, the pressure from demand on prices would be relieved sufficiently so that actual market prices might fall below the ceiling price. That happened in the last war in a number of particular commodities. The ceiling price was one thing but the product was selling at a somewhat lower price. Those were isolated instances. But, as I say, if it should happen, the increase in reliance upon fiscal devices might relieve the pressure sufficiently on prices as to make a lot of ceiling prices unnecessary. There is no difficulty involved with such a policy if what you say is likely to be true, that it would be followed later by a very vigorous tax program. Whether it would is a political matter; we don't know. If it would, the initial imposition of direct controls would not have any particular long-run consequences.

QUESTION: Dr. Burns, the tax collector is never a very popular fellow but he has his problems. In connection with this fiscal and monetary program, the situation occurs more often than not that when the trouble comes, there is a certain modus operandi with the Congress; the Congress has ideas of putting a tax on but the tax rates that might be recommended by the Treasury might not be recommended by the Congress. What is recommended and what goes out are two different things. The rates are not adequate to drain off this excess income to which you refer; neither are they sufficient to defray the cost of the procurement program. As you indicated in your presentation, we are relegated to a sale of bonds or to borrowing from the public; it is with respect to this that I have my question. At the present time our bonds are maturing. The presentation value in dollars is a great deal less than the original dollars that were used to buy the bonds. Consequently, there is a distasteful attitude with the public to further purchase of these bonds.

Second, our debt at the present time is 257 billion dollars and presumably, if we have to embark on this borrowing in the future, it will be greatly augmented. Under these circumstances, with the difficulty to dispose of bonds or to borrow, the enormous size of the present debt, what would your reaction be as to financing that deficit that will probably face the Treasury? And furthermore, how high do you think this public debt might go?

DR. BURNS: Well if you say that the public in general will not buy very many bonds, then the Government will have to borrow through the banking system, which is inflationary. But a rigorous application of fiscal policy would make borrowing of no great consequence. As to your first point, certainly if Congress will not go along with the Treasury, therefore borrowing will be necessary. If the public will not buy the bonds and the banking system does, and the banking system can, of course you are back in inflation.

QUESTION: Or else you will have to invoke enforced savings. I was wondering what your reaction would be to that?

DR. BURNS: I suppose of the two in the end it probably makes no difference. In the end it probably makes relatively little difference, but we have tried inflation and have had some rather bad results from it. Many people were badly squeezed by that sort of thing. If what you say comes about, it might be worth trying a bit of compulsory saving. Instead of increasing the income taxes as much as we ought to do, increase the income taxes as much as we can, and then have possibly a graduated percentage of compulsory savings and make it tought for people to cash in until some later period. We haven't tried it. Of course, it might be better than trying to finance the deficit by what is certainly an inflationary method, namely, borrowing from the commercial banks.

I can't answer your question, "How high can the public debt go?" But I will end this remark with one story. Back in 1933 the Hearst newspapers were proposing, as a way of getting out of the depression, that the Government borrow a perfectly enormous sum of money—five billion dollars—to finance a public works program. Someone circulated a questionnaire to about 30 or 35 of some of the best known economists, bankers, and financial experts, asking a number of questions, among them being "Could the Treasury borrow five billion dollars?" The next question was, "Could the economy stand that large an increase in the public debt?" The experts concluded, with one or two exceptions out of the 35, that: First, the Treasury could not borrow that amount of money and second, if it did borrow that amount of money, the debt would be too large and the country would be in a dangerous financial condition. Well, the public debt at that time was 16 billion dollars. The gross debt is now 280 billion dollars; the net is 257 billion dollars. It would have been considered completely inconceivable 10 years ago that the public debt could get this high. That is why I don't want to put any limit on how high the public debt can go.

QUESTION: Dr. Burns, I wonder if you would comment on the competition in the market of our present huge national savings in the original bidding for goods and services in this first period when we are short on production?

DR. BURNS: That is a very good question. I was wondering if that was going to come. That is the weakest point to an effective fiscal and monetary approach. It might be that through fiscal policy we could tailor the demand out of current income to the amount of goods and services coming on the civilian market, but there is this enormous amount of liquid assets, savings accounts, large checking accounts, government bonds, all of which can be converted into money and into purchasing power and make complete hash of a fiscal and monetary policy. That is why I would never say to abandon direct controls and rely only on fiscal and monetary policy. I would say, develop the emphasis along fiscal and monetary policy, and if there is any big shift out of these past savings to the purchase currently of goods and services, then there would be no alternative but to put on some controls.

MR. MUNCY: Dr. Burns, I wish to thank you for illuminating some of the fundamental facts that are basic to our quandaries today. We do appreciate that. I think there is something else as a byproduct in that you have convinced us with what you have said that there is no easy way through this problem; we are going to have to think it through.

On behalf of the staff and faculty, I thank you very much for an enlightening talk.

(6 Feb 1951--350)S.