BOOK REVIEWS


Napoleon has been represented as saying that “Bankruptcy is a sign of dissolving social organs”—in other words an effect of general social decay rather than a cause. The present excellently edited volume brings sharply into focus the conflicts of social values and ideological issues which today confuse the inflationary problem. If these conflicts and confusions are not soon cleared up, we may find ourselves going further along the inflationary path than any of us now has any idea of. For that reason, if no other, the University of Chicago Law School is to be commended in presenting us with so clear a summary of the basic points of dispute.

Professor Director, adhering closely to the organization of the conference itself, has produced a very logically assembled volume. The book opens with a summary prepared by the staff of the University of Chicago Law School, to which are appended some very interesting comments by various participants. Next come the seven sessions: the role of monetary policy, the role of fiscal policy, the level of public expenditures, the role of direct controls (two chapters), the impact of rearmament on the British economy, and a final session on the long-run consequences of inflation upon free institutions, followed by various summary statements. At the beginning of each session is set forth the outline of questions for discussion, followed by an edited transcript of the very lively discussion itself.

It so happens that the present reviewer has been the editor of a somewhat similar volume regarding the impact of the union upon the economic system. But our conference had only eight participants. When I recall the problems connected with editing a conference of merely eight, I can only say that I am overwhelmed with admiration at what Professor Director has achieved with a conference of some sixty-eight. I wish here to tender him my congratulations both on his courage in ever attempting the job, and the success with which he has carried it through. But let us proceed to a discussion of the basic issues raised by the conference.

To this reviewer at least, one very encouraging thing about the conference (as reported anyhow) is that not much time seems to have been wasted battling

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1 The Impact of the Union (Wright, editor, 1951).
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over the definition of inflation. Ten years ago the present writer submitted the following definition: "The condition which results when an increase in attempted spending in a certain market, in a certain interval of time, exceeds the adaptive power of the time-elasticity of supply to such an extent that a price rise ensues which seriously affects the purchasing power of the fixed income classes and money debts in general."

In other words, there are several factors here. First a process (increased M or V) and next a result (higher prices), or, still more important than the prices, a distortion of the distribution of wealth and/or impairment of the productive efficiency of the system. As Mr. G. V. Cox points out (p. 17), the objection to inflation does not merely rest on "equity" but often also on "considerations of productive efficiency."

Now there are many possible disagreements. Some people wish to apply the label of "inflation" merely to the process whether or not, in the first instance, it produces the result. Others concentrate merely on the result. Thus Mr. Mints says (p. 35), "What I mean by inflation is simply a rise in some particular index of the price level." Others require both the process and the result. Still further conflict arises over how much of the result. Is inflation (like the three degrees of negligence) higher prices, damned higher prices, or god-damned higher prices? Finally, those who concentrate on the result split into two groups, (a) people who think inflation is licked if official prices are stabilized, and (b) people who either point out that in no case has a price control program ever survived indefinite injection of purchasing power (the black market eventually becoming the market), or else people who point out that even if official prices are nailed, the program of monetary injection plus control is being used to create inequitable or unstabilizing redistribution, or else actually retarding production, or else both.

All these views were present at the conference and appear in the report. So there was no question of unanimity. Yet the disagreement does not seem to have done much harm. For everyone, if we may trust the report, made it clear which definition he was using. As a result, there is seldom any difficulty in seeing what each man is talking about. This is an outstanding example of one of the writer's pet theses, namely, that if only economists would make explicit their semantics and their norms, two-thirds of their controversies would disappear.

Turning from the semantics to the substance of the conference, however, we find little unanimity. Yet the writer submits that even here the conflicts are not conflicts of economic science but (more or less) subconscious conflicts of social values. What are the basic elements of the post-Korean inflationary problem? Clearly the problem traces back to a great increase in government investment.

\[\text{Wright, The Creation of Purchasing Power 66 (1942).}\]

\[\text{But suppose the price rise results from a famine?}\]
(if arms expenditure can be called investment). In other words planned investment exceeds planned saving. Immediately the physical problem shows two approaches, (1) cut down on non-government investment, and (2) cut down on consumption. And it must be pointed out that no matter how we do it one of these two things has to happen. The average citizen must suffer in a reduced rate of increase (at the very least) of private expenditure. He is going to be cooked. There is only the choice of being roasted by inflation, boiled by taxation or fried by shortages or rationing.

But while almost everyone accepts the principle of “equality” of sacrifice, almost everyone also tacitly amends George Orwell’s famous slogan into “some sacrifices are more equal than others.” A few groups may escape sacrifice altogether and for the remainder there is a wide range of possible relative burdens. Just here the issue is joined. Those with a strong equalitarian bias wish to cut down on investment. Thus Professor Hansen says (p. 167), “We could sharply reduce the non-defense investment.... [W]e might very well cut out civilian motor car production altogether.” Again Mr. Eugene Rostow, though perhaps with a somewhat different set of values, says (p. 212) “I have in mind the distinction between permitting business establishments to build new store fronts and more and more new and beautiful retail displays... and the construction of essential housing and other things.”

On the other hand, Mr. Jewkes whose remarks, I must confess, along with those of Dr. Stocking and some of Dr. Stigler’s summaries, were probably more sympathetic to my own values than those of almost any other speaker, argues (p. 104) for a “purchase tax” both because it is discriminative, and because it is regressive. In other words, he feels that the thing to do is to cut down on consumption, especially the consumption of goods which use essential materials. Selective excises (at the least) are obviously well adapted to this purpose.

Certainly as long as one fixes one’s attention on the immediate short run condition, it is clear that a decrease in planned investment would be just as effective as a decrease in planned consumption. If I may stop, however, for a brief digression, I would like to suggest that the symposium would have been stronger had more factual material been introduced or more footnotes given. How significant quantitatively are the Florida race tracks, store fronts and so on that always crop up in these discussions, compared to the effects of say even a five percent purchase tax? Again, on another topic, Professor Friedman says (p. 53), “It simply is not true that banks and other financial institutions have the cash with which to expand the credit supply” while Professor Hansen parries Friedman’s argument (p. 166) with a reference to velocity. But no supporting evidence is given in either case.

Returning, however, to investment versus consumption, I have always felt the cut-down-on-investment argument was short sighted. What we want to do, if possible, is to increase both civilian and military output. And it seems to me undeniable that a higher average propensity to save and invest would, over the
long run, be the best thing. In other words, if the lower income groups submitted to a somewhat lower consumption level now, the rate of growth of consumption output might be increased or at least maintained. And in a few years they would be better off than if investment were at once curtailed (assuming that that would do the job). But this argument immediately leads to the idea of encouraging saving and encouraging incentive, which in turn, I submit, involves permitting a good deal of inequality (even Professor Shoup [p. 81] while considering the effect of the income tax to be a “stand-off” up to $3000–$5000 says that from then on “I would suspect it would have an appreciable effect on over-time, absenteeism, etc.”). But our modern equalitarian bias throws all such arguments summarily out of court.

The masses do incurably want to eat their cake and have it too. Regarding restriction of investment in general, Representative Celler says (p. 40), “It may be all very well in theory to say that we should curtail building operations on the part of governments, federal, state, and municipal; but we are faced with situations in many metropolitan areas where we have people living in miserable habitations. How can Washington and the state capitals and the municipalities successfully resist the pressure and demand for expenditures of funds for new construction? It may be very well in theory, but we have to go a little bit beyond that.” And again (p. 94), “I would say, and I am sure the members of the upper chamber who are here this afternoon will agree with me, that practically all our waking hours are involved with importunities from constituents from far and near and with bitter complaints about the high cost of living and their inability to meet with the take-home pay the family budget requirements. And, in addition thereto, these same constituents who complain in that direction also importune and bring every kind of pressure to bear upon us to widen benefits under social security, to provide for defense housing, and to provide for more and better pensions and for more and more government spending.

“This being a democratic government, we naturally must respond. It is very difficult and takes a great deal of courage to say ‘No.’ You can theorize all you wish around this table, you can write all the books you want on the theory of fiscal policy, monetary policy, price control, but it will all be upset by the Congress, not because Congress wishes to upset your theories, but because we are a representative government and the members must be responsible and responsive, reasonably, to the public will.”

On the other hand, Mr. Brubaker of the United Steelworkers has this to say (p. 111) about excises: “I do not know what some of the people can mean here when they indulge in that gross perversion of simple semantics by suggesting that it brings equality of sacrifice to slap a sales tax or an excise tax on automobiles, for instance, to the level where no worker in the $3,000 bracket could ever buy an automobile, and yet a man who is paying an 85 per cent rate in the $100,000-plus bracket can go out and buy a half-dozen of them. If that is equality of sacrifice, I do not know what the term means.”
IV

The truth of the matter is that the American voter, and even more the American intellectual, is still filled with the beautiful myth that the “rich” and the “corporations” are somehow sitting on a magical store of real wealth which can simultaneously permit us (if we tax them hard enough) to fight a war, satisfy the wants of the American lower income groups and end famine throughout the world. To this Mr. Cortney soberly remarks (pp. 106-7), “I submit that there is very little room left for taxing personal incomes unless we go in the very low-income brackets. All of us are probably familiar with the following fact, that if we tax away 100 per cent of what is left after paying present taxes to those who earn $25,000 or more, we would get eight hundred million dollars.

“Gentlemen, if any national emergency is going to be used for the leveling of incomes, I predict that we shall never get out of national emergencies, politics being what they are. Therefore, the only alternative to greater personal income taxes we have is the sales tax, or what Dr. Jewkes calls the purchase tax. I believe, whether we like it or not, that if we want to have something which labor likes to call equality of sacrifice, we shall have to impose the purchase tax.

“Gentlemen, I draw to your attention that, since the outbreak of World War II, the low-income brackets are better off after paying taxes by about 27 per cent as compared with the prewar figure, while, if we take the so-called high-income brackets, we will discover that at least for those who used to earn $25,000 their real purchasing power is about one-half even when their income has been doubled since the war. I earnestly submit that there is very little margin left for taxing personal income, and I am afraid that, when we are talking about taxing personal income, we are always thinking of those who earn more than, let us say, $20,000 a year. The only alternative we have is the sales tax.”

And Dr. Von Mises says (pp. 107-8), “In the last decades all nations looked upon the income and the wealth of the more prosperous citizens as upon an inexhaustible reserve which could be freely tapped. Whenever there was need for additional funds, one tried to collect them by raising the taxes to be paid by the upper-income brackets. There seemed to be enough money for any suggested expenditure because there seemed to be no harm in soaking the rich a bit more. As the votes of these rich do not count much in elections, the members of the legislative bodies were always ready to increase public spending at their expense. There is a French dictum: Les affaires, c'est l'argent des autres ('Business is other peoples' money'). In these last sixty years political and fiscal affairs were virtually other peoples' money. ‘Let the rich pay,’ was the slogan.

“Now this period of fiscal history has come to an end. With the exception of the United States and some of the British Dominions, what has been called the ‘ability to pay’ of the wealthy citizens has been completely absorbed by taxes.
No further funds of any significance can be collected from them. Henceforth all
government spending will have to be financed by taxing the masses. The
European nations concerned are not yet fully aware of this fact because they
have found a substitute. They are getting Marshall Plan aid. The American
taxpayer fills the gap.

"In this country things have not yet gone as far as they have gone in other
countries. It is still possible to raise an additional two or three or perhaps even
four billion dollars by increasing corporation taxes, by excess profits taxes, and
by rendering the personal income tax more progressive. But even four billion
dollars is only a fraction of what the Treasury needs under present conditions.
Thus, too, in this country we are at the end of a period of fiscal policies. In this
country also, the whole philosophy of public finance must undergo a revision.
In considering the pros and cons of a suggested expenditure, the members of
Congress will no longer be able to think, 'Anyway, the rich have enough; let
them pay,' for in the future the voters on whose ballot they depend will have
to pay."

But can the American people realize the futility of killing the goose before the
bird is entirely dead?

Yet another aspect of the case is that we are still much more afraid of unem-
ployment than inflation. And mention even of the short lived frictional unem-
ployment in particular areas, which is an almost inseparable concomitant of
adjustment, is manipulated, sometimes not too honestly, to send shivers down
our spine. Yet even Lord Beveridge allowed three percent unemployment in his
ideal system.

V

For all these reasons the pressure for controls is easily explained and it is not
surprising that the two "direct control" chapters of Professor Director's book
are among the liveliest. Controls are pushed because the people feel "something
must be done" (Professor Viner takes this argument to its extreme, p. 179); be-
cause the union leaders somehow seem to feel (a) that controls avoid sacrifice
or else (b) can be manipulated to give (literal?) equality (see Mr. Feller of the
C.I.O., p. 227, or Mr. Brubaker already quoted); or because, alternatively, con-
trols make it easier to persuade labor to control itself (Professor Haley, p. 12).

Most interesting are the arguments of Mr. DiSalle and Dr. Ackley who com-
pare (p. 16) a runaway price spiral with controls, and then argue that the com-
parison proves that controls are the best method of preventing the spiral. But
this argument crops up many times in the symposium. Somehow it seems sup-
posed that a wage-price spiral can be kept going indefinitely without an appro-
priate monetary base (quantity or velocity). Yet surely even an elementary
economics student ought to be able to class such a viewpoint as illiterate. What
its proponents must really mean is that "politics" will prevent our using ade-
quate monetary and fiscal policies in time. But Mr. Friedman puts his finger
(p. 230) on the essential problem of the whole debate. "If the political strength
of the labor and associated groups is sufficient to force the monetary authorities to inflate, why is it not sufficient to force the wage-control authorities to supply the same increase in income?” The recent steel strike points up all too well the prophetic character of this remark.

VI

My space is running out and I must omit the galaxy of other fascinating topics raised in this challenging book. To me the real objection to controls are those pointed out by Dr. Stocking (p. 289) as follows: “Under authoritarian controls administrators quickly learn that it is easier to regulate prices in industries of few sellers than in industries of many sellers. They therefore encourage associated activity to simplify the problems of control. Concerted action tends to become habitual.” And Professor Jewkes (p. 303), “I do not think there can be any doubt that the movement for planning in Great Britain in the postwar period has been led and advanced very largely by men who had been in charge of war planning during World War I, had tasted the pleasures of the job, had been so persuaded by their success that they thought it ought to be preserved for peacetime.” One need only read the recent writings of Professor Galbraith to see how apropos these are.

I do not myself feel that we could rely as heavily on monetary policy as Dr. Friedman thinks, though I do not in the least challenge the formal validity of his argument. But I do think that a combination of Friedman’s monetary policy with Jewkes’ purchase tax would do the job. There may also be a case for some direct physical allocation of materials where the market works too slowly. In all-out war all weapons will probably be needed in economics as well as in fighting. But it seems to me that today the controls are like aspirin—they make us think we are doing something to help the disease when in fact we are not. And I suggest that the real danger is that they are likely to be manipulated—quite consciously and cynically in some cases—to create a massive, equalitarian, corporativist stalemate. As Dr. Viner says “Our freedom will not be wrenched from us but we may give it away.” (Emphasis added.)

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If authors felt called upon to write books only when they have had some unique experience, the number of publications would be drastically reduced and the world would not suffer too much in the loss of literary and scientific contributions. We would still have The Federal Taxing Process, for its author went to a very exclusive school in the executive sessions of the Congressional tax committees. He was a very apt pupil, no doubt, and his observations both on the

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