by Fremont Rider

A SURE CURE FOR INFLATION

A plan to solve our No. 1 problem.

WHEN the depression dropped into our laps last fall there were some members of Congress who welcomed it. To them it was a life saver. The inflation problem had been very much of a hot potato: they wanted it forgotten; and the depression offered them the best of excuses for forgetting it.

What mainly differentiates statesmen from politicians is the quality we call political courage. Our inflation has now reached the point where it can be stopped only by drastic action, and no politician likes to prescribe legislative surgery. He prefers, instead, to give his voting public a few more of his long-tested tranquilizer pills. It is incredible, however, that so large a proportion of the present members of Congress should be willing to let the cancer of inflation continue to eat its way, out of sight, despite the act that it is steadily undermining our entire economy.

We are extremely fortunate, however, in having, on the other hand, many intelligent and patriotic public servants who see clearly the grave impasse to which the inflationary policies that our government has been following, since the Federal Reserve Act of 1913, have now brought us. *They realize how cruelly inflation, and its concomitant burden of taxation, have now come to press on the poorer half of our population.* And they have no sympathy with the Santa Claus role that the average politician prefers to play—especially in an election year, evading decision on all unpleasant issues and providing governmental handouts and give-aways to cover up his evasion.

The poorer half of our population is aware—far more than most of our legislators—of what a tragedy inflation already is. In fact it is just because they are so aware that we are having a depression. For last summer living costs had mounted to such a height that a real inflationary squeeze began to be put on both our nine million fixed-income families and on our seven million families with earned incomes of less than $2,000 a year each. When 16 million American families find themselves obliged to stop all but absolutely necessary buying, and when over five million more families find themselves out of work mainly because of the abrupt refusal of these 16 million to buy anything but necessities, we cannot help but have a depression. And we will continue to have it until Congress does something to stop the inflation that is causing it.

As this is being written Congress has passed a bill increasing social security incomes from three to seven per cent. Its proponents obviously believe that this act, passed at this particular time, will provide them with election year good will. But from every point of view this "relief" is so inadequate that one wonders how they can so gravely underrate the intelligence of their voters. How far does three to seven per cent go toward offsetting an inflationary rise in living costs, which, since our last social security rates were set, has mounted to nearly 50 per cent? Even if this rise should help (very slightly indeed) that portion of the 21 million distressed families who are living on social security, it does nothing whatever to help those living on pensions, or life insurance annuities, or other forms of fixed income. Furthermore, inflation is at present mounting up so fast that this three to seven per cent of election year pap will all be wiped out in a year anyway.

The members of these 21 million families are not really that dumb. For years they have been lied to by a host of supposed economic and political experts. They had dinned into their ears a siren song whose constant refrain was: "Inflation is not really anything to worry about." But now they realize that they were being lied to. So, although the same lies are still being poured out, they are no longer being fooled by them. They know perfectly well also that Congress is, on the whole, paying no attention to their troubles. It has hundreds of millions to give away to Yugoslavia, Poland and Israel but it ignores the plight of these 21 million of our own people who ask for nothing but a stopping of the economic theft from which they are suffering.

Of course there are still some things about inflation that many members of the general public do not know. For example, they do not realize—just as most of our legislators and business men do not realize—that all inflations, unless they are affected by some exterior force, spiral upward at a constantly increasing velocity. Although in their beginning years this increase in velocity is so slight as to be hidden by the outside influences always at work, the spiral always manages, decade after decade, to go up faster. And, as every inflation nears its end, its rise in velocity is no longer to be measured in terms of decades. It becomes very rapid indeed, first increasing year-by-year, then month-by-month, then actually day-by-day.

This increase-in-velocity law is particularly apparent in wage-push inflations, as at present. Labor union demands grow with what they feed on; and, now that the unions have found it easy to get wage increases, they want their increases to come closer together, and to be constantly larger when they do come. Look back over the record. Fifty years ago they were glad to get increases of five cents an hour; and they made new demands only once in several years. Ten years ago they were asking for increases of 20 cents an hour, and they were beginning to ask for new increases every year. *Last summer one New York City union demanded, in a single "package," an increase totalling 92 cents an hour;* and in March of this year the women's clothing union secured a new contract assuring them, over the next three years, increases totalling approximately 40 per cent. Practically every present union contract now demands an increase of some sort every year. Unless our inflation is halted, it can be forecast that the unions will, before it reaches its climax, be asking for annual *increases* of two or three dollars an hour.

No inflation shows a pattern of *steady* rise, because all of them are, as was stated, continually being acted upon by exterior forces. One such force is war, which usually sends the inflation spiral up rapidly. There was a time when depression slowed it down—but this is true no longer. Acts of government may also temporarily hasten it or slow it up.

If we iron out all the minor intermediate ups and downs we find that it took from 1914, when our present inflation started, until about 1936, approximately 23 years, for inflation to cut the value of our normal prewar dollar in half. On the other hand it took only 15 years, from about 1936 to 1951, for it to cut the value of that 50 cent dollar in half again. Between 1951 and 1957 there was, on the whole, a slowing-up period, even though in construction, and in some other areas of the economy, wage costs went up more rapidly than they had in many years. But, since last summer, union wage increases on the one hand, and an appalling amount of federal inflationary legislation on the other, have combined greatly to increase again the velocity of inflation's upward course.

That repeated increases of wages, without correlative betterment in productivity, are bound to cause higher costs, and so higher prices, is one of the most incontestable of all economic axioms. Every economist agrees that there is only one source from which increases in real compensation to every one in the economy can come, and that one source is increased productivity. This means that, if a union, or any other group of workers, secures for its members an income greater than its employer secures in added efficiency (and this means, in practice, one greater than the two per cent a year of routine national betterment), then it is absolutely inevitable that the members of some other group in the economy, weaker than they are, have to suffer a loss in real income equal to their surplus of gain.

This is perfectly easy to prove. Suppose that every conceivable sort of income, and the prices of every conceivable sort of goods and services, were both doubled simultaneously. It is obvious that there would be a 100 per cent inflation (that is the real value of all money would be automatically cut in half) but also that nobody would be any better, or any worse, off.

But, as we all well know, increases of income over the last 40 years have not come equally to everyone. Instead there has been going on a nationwide robbing-Peter-to-pay-Paul process. Ever since 1914, as our continuing inflation in living costs mounted higher and higher, some families were able to make their incomes keep up with it. Some were not. Taken as groups, business men and labor unionists not only kept up with increased costs: in many cases they went far ahead of them. Other millions of American families have lived on the ragged edge, keeping even, but no more. But, as the census returns of national income make abundantly clear, many other millions of families have not been able even to keep up. And hardest hit of all have been the nine million families living, wholly or mainly, on fixed incomes; with no increases of income whatever to meet the rises in their living costs.

To realize the adroit methods the unions have used to escape the penalties of the inflation they have caused, consider the last auto-workers contract. To begin with, it had what economists call a "built-in-inflation-clause," one providing for bonus wage increases to offset the increases that they knew they (and their fellow unionists) would cause in the cost of living. Next, it had a "productivity betterment" wage increase of two and one-half per cent a year. Finally, it had large direct wage increases. And these last could not escape being wholly inflationary because the "productivity" increase had already absorbed what little cushion efficiency betterment might have afforded.

The power to put over such a one-sided contract as this is entirely one that has been given to the unions by government. The forced union shop, the permitting of political contributions by unions, the payment of unemployment compensation to strikers, non-secret union voting, the check-off, the permitting of open violence in the settlement of wage disputes, the exemption of labor unions from all antimonopoly laws—all these are but a few of the many parts of a vast governmental gift of economic and political supremacy.

NOTWITHSTANDING all these obvious facts, the unions continue to claim that they are absolutely innocent of any responsibility whatever for inflation. They put all the blame for it on business. And, to a considerable extent, business does share their responsibility. Its chief fault has been its supine submission, of recent years, to their own unremitting demands. Even 25 years ago strikes had become appallingly expensive. So business gradually changed its previous policies. Instead of fighting higher wage-costs, it tried accepting them and passing them on to its customers in higher prices. Rather to its surprise it met with little serious customer objection. That settled it: when a business fights higher labor costs it is really fighting on behalf of its customers; if they do not seem to care, why fight?

But another, and extremely important, reason why business stopped fighting wage inflation was that, when any dispute arose, it found that the unions had succeeded in getting most of the legal and legislative cards stacked in their favor. In all strikes of recent years, government, both federal and local, has, on the whole, been openly pro-union. When strikers resorted to violence, police have been ordered to look the other way. Much legislation has been avowedly pro-union; and, when it was not, law enforcement agencies were, all too often, told to sit on their hands. Even *the courts were biased.* In short, business found it almost impossible to secure either a fair investigation of its just grievances, or any equitable decision on the facts revealed by such investigation.

The general public is not yet fully aware of this development. As a people we have always had an almost naive faith in the basic integrity of our government. Sometimes we may voice cynicism, but in our hearts we believe that, on the whole, our officials are honest; our courts dispense justice, and our elected representatives work for the general welfare. It always comes as a disconcerting shock to find that quite the opposite is too often true.

If that share of responsibility for inflation which must be shouldered by business were only the passive one just mentioned—letting the unions have their own way without real protest—it would be bad enough. But in many cases it has been actively, as well as passively, responsible. When it found its buying public indifferent to higher prices it tried adding to the costs of higher wages more profit for itself. But even this was only a start. It has let much of its advertising descend from the level of sound sales appeal to the level of snobbishly glamorous pictures and iterative but meaningless copy. It has tended to concentrate on the more expensive forms of its products, or even to discontinue its cheaper lines entirely. It has loaded its products up with eye-appeal and gadgetry, while it has cheapened their basic materials and workmanship. It has enormously increased the cost of its products by making frequent and entirely unnecessary style changes in them. It has encouraged replacement sales by making repairing expensively difficult. It has restricted its sales in such ways, or to such channels, as made distribution more expensive. It has tried to make price competition unpopular.

Nevertheless, despite all these (and numerous other) evidences of a deliberate intent to force the prices of their products higher and higher, no one familiar with business would contend that, as a whole, it prefers high-priced products, or that it "conspires" with the unions to concentrate on them. When it comes to profits, of course, business wants as large ones as it can legitimately get. But too often it seems to have forgotten that low prices and large sales volumes are the surest road to long continued large profits.

We have heard a good deal in the last few months about "administered prices"; and, as a political phrase, to take the heat off the unions, it has proved a useful phrase to the inventors of it. But no company, no matter how big it is, can force its customers to accept its prices if the said customers don't want to accept them. The labor unions alone have been able to force the acceptance of their own "administered prices," and they only because the real buyer of their labor (the public which uses their products or services) has no direct opportunity to refuse to pay them.

To be sure the public can show—and on occasion it has shown—its attitude by initiating buyers' strikes. And it has been frequently suggested that it could, and should, demand permanent governmental fixing of wages and prices. It would be extremely unwise, however, if it did make any such demand, for the effective administration of permanent freeze laws is difficult; they require an enormous policing bureaucracy; they lend themselves to graft and evasion. Worst of all, they would be another vast step toward that complete domination of business by government that we call socialism. And, if we ever hope to bring back genuine free enterprise to the United States, we must take care not to stifle it further by still more government regulation.

On the other hand, as a *temporary* measure, to get further inflation stopped immediately, the imposition of a "standstill" upon both prices and wages is little less than imperative. If it is to be effective immediately this standstill would have to be imposed by Presidential proclamation, not by legislative enactment. But, if the President put the full prestige of his office behind an unequivocal "request," and asked for obedience to it as a patriotic duty to save the country from certain disaster, it would meet with almost unanimous public approval and acceptance.

Such a proclamation would state that it was a stopgap measure only, to hold the *status quo* intact until proper remedial legislation could be enacted.

It would request all sellers of products and services not to ask higher prices for them, directly or indirectly; and for the buyers of all products and services to refuse to pay higher prices for them. It would request all employers to refuse to pay higher wages and salaries, either directly or indirectly; and it would request both union and nonunion labor not to ask or accept higher wages or salaries. It would ask all branches of government not to impose higher taxes, and to do everything else in their power to make halting of inflation effective.

NOT ALL our economists agree that our present inflation is due either, primarily, to the forcing up of wage costs by the labor unions, or secondarily, to increases in other costs by business. But more and more of them are steadily coming to this conclusion. Within the last few months two of our most able economic experts—Professor Chamberlain of Harvard (in a long report), and Professor Burns, formerly Chairman of the National Council of Economic Advisers (in an important book—deserted the ranks of the so-called "classic" economists and joined the "wage-push" group.

The "classic" theory of inflations (i.e. the one which the text books have always taught) was that they all result from a shortage of goods coinciding with too great a volume of money in circulation. Although today's dwindling group of classic economists are obliged to admit that there are at present no shortages of goods to back up their classic theory they still insist that it is valid. And, by way of proof, they point out that money in circulation rose from six billion dollars in currency and $30 billion in bank deposits in 1939, to $30 billion in currency and $100 billion in bank deposits in June of last year.

But to this, the wage-push economists reply "We have more money in circulation now than we had 18 years ago, partly because everything costs twice as much, and partly because we have many millions more people to spend it." The classic economists retort: "You are putting the cart before the horse; it is only because there is so much money lying around loose that people demand twice as much for what they have to sell, whether what they sell is labor or goods." To this the wage-push economists reply "Nonsense. Where do you see any money lying around loose? And, when the members of a labor union demand a wage increase, do you think for a moment that they know, or care a rap, how much money there is in circulation? Any more than they care whether there is a shortage of goods or a surplus, or whether business is in a depression or a boom? Remember that, many years ago, when some one asked Samuel Gompers what was the ultimate goal of labor union policy, his answer was: 'More'. "

THE PRECEDING paragraph is a colloquially phrased summing-up of an erudite argument that has been going on in economic circles for the last ten years. It looks now, however, as though this argument had at last been conclusively settled. For last July the classic economists were given a chance to prove their theory valid: they promised to halt our 40-year-old inflation by cutting down on the nation's money supply. There are always two possible ways to reduce the amount of money in circulation—a drastic way and a tender way. They chose the tender way: they raised central bank rediscount rates. Their "classic" reasoning was: if money is made more expensive, less will be borrowed; if less is borrowed, less will be spent; if less is spent, there will be a business recession; if there is a recession, prices and wages will fall.

One hundred years ago this syllogism of theirs would have worked out, step by step, exactly as they expected. But last fall it worked out only up to the last step; at that vital last step it fell down flat. Their raising of the discount rate *did* help (though only a little) to cause our depression; but it did not halt inflation an iota. For all that, however, the "classic" inflation theory is still being advocated by a sufficient number of economists (and journalistic sympathizers) to keep the situation confused—which is all that the labor unions ask of it.

But what is going to be the legislation to stop inflation, which the imposition of a temporary price and wage freeze is to give Congress time to enact?

Business has gone soft, both in its manufacturing and its selling because it has geared itself up to the buying preferences of the "rich" half of our population, to whom efficiency in production is a relatively unimportant detail. It would enormously increase its total sales if it redesigned and repriced downward those many kinds of goods that the "poor" half of our population can now no longer afford to buy. Many business men are not even aware that they have really priced themselves out of a large part of their market, just as many national advertisers have forgotten that 99 per cent of their possible customers do not spend their winters at Palm Beach.

IN REVERSING this trend government can help—not by force but by persuasion. For example, it could, and it should, rewrite such of its tax laws as now work to encourage high prices. Some of them, as Professor Slichter ably points out, actually subsidize wage inflation. But a proper tax study should go much further. The dictum that "the power to tax is the power to destroy" has a reverse that is equally valid. *The power to tax is also the power to create.* Making taxation a constructive rather than a destructive device obviously requires enormously more imagination and ingenuity; but the constructive vista opened up by the idea is a fascinating one.

For example—just to start the legislative mind working—let's suppose that an entirely new kind of "luxury taxes" were to be developed, to be imposed upon a very wide range of products and services, running all the way from shoes and theatre seats to rents and automobiles. These new taxes would not be imposed as additional taxes, but (and this would be the "persuasion") they would take the place, in whole or in part, of corporation income taxes. The vitally important thing about them would be that they would be so set up as to be strongly *de*flationary in their impact. This would be accomplished by having them be, not a uniform percentage tax on each commodity, like previous "luxury taxes," but, instead a variable tax on each commodity, and a tax that slid upward very sharply indeed, and very greatly indeed, as the prices of the various models, or forms, of the commodity involved slid upward. The sellers of all products would be completely free to set any prices they pleased on them; but they would know, and their buyers would know, that on the cheapest forms of their products they would pay no luxury taxes at all; while on the expensive forms of them they would have to pay very high luxury taxes.

It is clear that such a tax system as this would provide government with a tool, not to *force* lower prices, but very strongly to *invite* them. For such a sliding scale tax would stimulate efficiency all along the line: in design, in manufacture, in distribution. At the same time—and this is equally important—it would, to a very large degree, shift the corporate tax burden (which is at present hidden in the prices of *all* merchandise) from the shoulders of the poor (who, in the long run, now pay most of it) to the shoulders of such of the rich as enjoy being ostentatiously extravagant.

We are told that today, on the average, *nearly one-third of the retail prices of all merchandise consists of taxes*—often a cumulation of hundreds of them. But, under such a new tax plan as this, on wool coats for small boys, for example, (selling now for $10) this 33⅓ per cent tax burden might be removed entirely, while on mink coats for dogs (selling now for $200) there would be added to the basic sales price a luxury tax of 100 per cent (or perhaps even more).

Or, to take another example; on cars selling for $500, or less, there might be neither a luxury tax, nor sales taxes, nor income taxes, nor excise taxes, while on cars selling for $1,500 there might be only an added luxury tax of $300. On the other hand, on cars selling for $8,000 (or more) there might be an added luxury tax of another $8,000.

NOR DOES the cure of the basic cause of inflation, namely labor unionism's continual pressure for more and more and MORE, necessitate any permanent freezing of wages. The reasons forbidding a permanent wage freeze are just as compelling as those forbidding a permanent price freeze. And such a wage freeze is equally unnecessary, because union wage inflation can be stopped, and stopped gradually and naturally, simply by stopping the government's continual encouragement of it. All that government has to do to halt it is to repeal some of the various laws and regulations by means of which it has given the unions the almost irresistible economic power which they at present possess.

We have been learning the hard way that cartels set up by unions to monopolize the sale of labor are just as inimical to the general public welfare as cartels set up by business to monopolize the sale of goods. The stopping of union labor's drive to secure for itself, by force, absolute control of all labor will, of course, be bitterly opposed by its leaders. But it will be enthusiastically welcomed by that three-quarters of the public which is not unionized, and by a surprising portion of the union's own members.

Those politicians whose policy it has been to submit without question to every demand of union labor's leaders, quite regardless of the welfare of the public at large, believe, of course, that in so doing they have been playing smart politics. Some day they are going to wake up to find that one shrewder than they, with his political ear closer to the ground, has won out over them by taking an almost opposite course. He will promise his voters just one thing, but that one thing is what every voter overwhelmingly desires: a *permanent* and *assured* reduction in the cost of his living. On this platform, and on this platform alone, a candidate whose sincerity was unquestioned could sweep aside all opposition.

WISE legislators would start their union labor repeals with an action that would be more generally approved by the voting public as a whole than any other one action they could take. THEY WOULD CANCEL ALL THE LAWS, RULINGS AND PRECEDENTS WHICH AT PRESENT ENABLE THE UNIONS TO FORCE THE ACCEPTANCE OF THEIR DEMANDS BY THE USE OF NAKED VIOLENCE. THE REST OF US ARE NOT PERMITTED TO GAIN OUR PERSONAL ENDS BY RESORTING TO THAT FORM OF MASS INTIMIDATION THAT IS POLITELY CALLED "PICKETING," OR BY ACID THROWING, MURDER, THE UP-SETTING OF AUTOMOBILES, WINDOW SMASHING, BOMBING, ARSON, AND THE USE OF GOON SQUADS. YET ONE OR MORE OF THESE FORMS OF VIOLENCE IS BEING USED TODAY IN EVERY STRIKE.

Anyone who believes that the curbing of these techniques is going to be accomplished overnight is naïve, indeed. The record of governmental cowardice and corruption in meeting them is too long. Nothing but insistence by the public that union-inspired violence be stopped, an insistence transmitted in unmistakable terms to its representatives in government at every level, will bring it to an end.

PAUL ROBESON RESUMES HIS TRAVELS

One of the immediate results of the notorious Supreme Court decision in the Passport Case is that now Paul Robeson can assume his old act of traveling around the world claiming to speak for the American Negroes.

Robeson, who received and accepted a prize from Soviet Russia, has announced his departure for England to accept singing and acting roles. Before the passport act caught up with him, he made two tours through Africa where, it is charged, he attempted to set up anti-Western movements among the natives.

The Frankfurter-Warren Court decision has now made the United States defenseless against the pro-Communist antics overseas of such men as Robeson. It is significant that even the Actors' Equity, to which Robeson belongs, refused to intercede for him when he was denied a passport.

Money Made Clear:

DEBT MONEY—

By Its Fruits You Shall Know It

by Norman Dodd

IN THE glaring light of the uses to which it is put, debt-money looms up as:

> The practical means by which men win their way to a control of both the borrowers and lenders. They turn this triumph into profits for themselves.

As such, debt-money is the prize which prompts men to strive for the money monopoly. Once they have acquired this power, it serves to perpetuate their possession of it. Thus debt-money becomes the explanation for the historically obvious efforts of a small group to operate both lending institutions and borrowing organizations for a single selfish purpose. In the interest of the people as a whole, the borrowers and lenders should, of course, operate independently of one another.

It also explains the persistent existence of these "self-chosen few" and the intensity with which real debt free money has consistently been opposed by them. Real money is herein defined as that which permits its users continuously to calculate equity and to measure the relationship between that which they contribute to the common good and that which they receive from this good. In addition, debt-money accounts for the practices by which the above mentioned opposition is made effective, and for the violence which follows, once the consequences of these practices become reasonably evident.

Were these several conclusions unreasonable, debt-money would not exist for, considered seriously and by itself, it becomes a violation