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Dealing with Recession and Inflation

THE PRESSURE for economic improvement, which is now being felt everywhere in the world, has been a dominant force throughout our nation's history. The typical American worker has not been content with a good income or a decent standard of living. He has striven to improve his skills, to increase his income, and to raise the standard of living of his family. The typical business manager has not been content to run an efficient enterprise. He has striven to equip it with the most modern contrivances, to improve its products or services, and to expand sales. The typical investor has not been content with a modest return on a safe investment. He has willingly risked capital to create economic opportunity—by exploring new processes, experimenting with new products, building new facilities, and developing new markets. Our economy has grown rapidly because we had faith in ourselves, because we have developed institutions that encourage enterprise and reward efficiency, and because we have believed in progress sufficiently to put enough aside from our current income to expand the productive plant and build the knowledge

Millar Lecture at Fordham University, October 15, 1957. Reprinted, by permission of the publisher, from *Prosperity Without Inflation,* Fordham University Press, New York, 1957, pp. 23–42.

that would be needed by a venturesome and growing population.

Americans today preponderantly believe in economic progress through free and competitive enterprise, just as our fathers did. But we have also come to believe that progress need not proceed as fitfully as in the past. Between 1854 and 1954 our economy experienced twenty-four full waves of expansion followed by contraction. Most of these setbacks to economic growth were brief and mild. However, some were severe, as in 1857–58 and 1907–08, and others were protracted as well as severe, as in the 1870's, the 1890's, and the 1930's. Whenever an economic depression developed, people generously shared what they had with their less fortunate neighbors. Private welfare agencies supplemented these personal efforts by distributing provisions to the needy, and local governments occasionally provided work relief. Such measures, however, failed to reach many needing assistance. Sometimes they added to the feeling of degradation produced by unemployment itself; and they did nothing to prevent the occurrence of economic slumps. They could not long satisfy the requirements of a society which, in the process of undergoing rapid industrialization, was also learning how to express its aspirations for a better life through the ballot boxes of democracy.

I

The concept of governmental responsibility for moderating economic fluctuations developed gradually and in response to hard experience. At the beginning of the century, public officials were already searching for ways of dealing with the most dramatic phase of the business cycle—that is, the prevention of financial crises such as had occurred in 1893 and in 1907. The violent movements of the price level between 1914 and 1921

stimulated the authorities of our newly organized Federal Reserve System to concern themselves during the twenties with the moderation of price fluctuations, in the hope that the business cycle itself might to some degree be tamed in the process. After the stock market crash of 1929, business activity kept declining for many months, unemployment reached proportions hitherto unexperienced, and general discontent mounted. Extensive governmental measures to stimulate recovery of employment, production, and prices became unavoidable. They were put in motion, first under the Hoover Administration, later—and on a broader scale—by the Roosevelt Administration.

Unemployment finally vanished during World War II, but the memory of its ravages during the thirties remained vivid. As the war approached a close, great apprehension was felt that mass unemployment might return once millions of men were released by the armed forces and by the civilian establishments then engaged in producing war goods. To register the nation's determination that this must not happen, the Congress passed with an overwhelming vote of the members of both our major parties the Employment Act of 1946, which solemnly declared that the federal government has a continuing responsibility to use all practicable means to foster free competitive enterprise, to prevent or moderate economic fluctuations, and to promote maximum employment, production, and purchasing power.

The Employment Act reflects a revolutionary change in economic and political thought. Only a generation ago, men concerned with economic affairs typically held the view that it was best to allow storms of business depression to blow themselves out. They knew, of course, that unemployment and business failures at times increased sharply. They deplored such developments, and therefore persistently argued for monetary stability and the prevention of booms. But once a business reces-

sion got under way, they were inclined to oppose any large governmental efforts to check the economic decline. In response to such proposals, they often took the position that economic adversity stimulated people to practice thrift and industry, that it served to redirect or weed out inefficient workmen and inefficient enterprises, and that economic progress was furthered in the process. Let the government raise enough taxes to cover its expenditures, let the banks maintain pressure on business firms to liquidate excessive inventories and avoid hazardous undertakings, let the financially weak firms take down their shingles and put up their shutters, let the general public practice greater frugality—incredible though it may now seem, these were the measures for curing a business depression that were widely and effectively advanced a mere twenty or thirty years ago.

The Great Depression of the thirties and the international troubles of later years forced most of us to reexamine our economic ideas. From personal observation or experience we have learned that self-reliant workers as well as the shiftless lose their jobs when business activity falls off appreciably, and that at such a time well-managed enterprises often follow the inefficient into bankruptcy. We have learned that in the course of a depression many men lose faith in themselves, and that some lose faith even in our economic and political institutions. We have learned that economic progress is a powerful weapon in the ideological struggle that of late has been stirring men's minds in distant lands, and that the continuance of prosperity is our best answer to the Marxist prophecy of crisis and collapse of free economies. We have come to recognize that in an age of international turmoil such as ours, federal tax revenues, expenditures, and debt transactions are bound to be very large, and that it therefore is unrealistic to suppose that the govern-

ment any longer either can or should be a neutral factor in the economy.

Although our ability to limit recessions and prevent depressions has not yet been fully tested, we have made considerable progress in understanding economic fluctuations and we have learned to profit from the mistakes of the past. No government nowadays would tolerate the destruction of one-third of the nation's money supply during a period of depressed economic activity and prices. Yet that is precisely what happened between the fall of 1929 and the spring of 1933. No monetary authority is likely to repeat in the near future the blunder of the Federal Reserve System in the autumn of 1931 when, in the face of widespread economic fear and trouble, a tightening of credit was allowed to occur. Nor has the ineffectiveness of the liberalizing actions that followed in early 1932 escaped the attention of experienced observers. It is not enough to increase the availability and reduce the cost of credit during the declining phase of a business cycle. If such action is to be effective, it must come when the level of business and consumer confidence is high. This condition is much more likely to prevail in the early than in the advanced stage of a business contraction, particularly if the government pursues policies that otherwise encourage individual enterprise.

If prosperity is to flourish, people must have confidence in their own economic future and that of their country. This basic truth was temporarily lost sight of during the 1930's in the process of grafting new economic ideas and practices onto the old. In the five years from 1932 to 1936, unemployment at its lowest was nine million or 17 per cent of the labor force; at its highest it was thirteen million or 25 per cent of the labor force. The existence of such vast unemployment did not, however, deter the federal government from imposing new tax burdens.

Exemptions under the individual income tax were lowered from $3,500 to $2,500 for married persons. The minimum rate of the tax was raised from 1.5 to 4 per cent, and the maximum rate from 25 to 79 per cent. The exemption of dividends from the normal tax was repealed. The tax rate on capital gains of high income recipients was increased. The basic tax rate on corporate profits was raised from 12 to 15 per cent, besides the levying of a capital stock tax. An undistributed profits tax was imposed, with a maximum rate of 27 per cent. The exemption under the estate tax was sharply reduced, while the maximum rate of the tax was raised from 20 to 70 per cent. A new gift tax was enacted, with a maximum rate of 52½ per cent. A wide variety of new excise taxes was imposed—on automobiles and parts, cameras, phonograph records, sporting goods, furs, jewelry, radios, refrigerators, gasoline, electrical energy, telephone and telegraph messages, and toilet preparations. For a time, even candy, chewing gum, and soft drinks carried excises, as did checks drawn on bank accounts.

The Revenue Act of 1932 imposed the heaviest of these increases of taxation, but later legislation added new burdens in quick succession—in 1934, 1935, and again in 1936. People were unprepared for tax measures of such severity. The new taxes encroached on the spending power of both consumers and business firms at a time when production and employment were seriously depressed. Worse still, they spread fear that the tax system was becoming an instrument for redistributing incomes, if not also for punishing success. Greatly increased federal spending and borrowing, which accompanied the new and higher taxes, stirred further doubt in the minds of many businessmen and investors about the country's economic future. In the prevailing atmosphere of uncertainty, much of the constructive legislation of the time—as in the case of banking, the

stock market, housing, public utilities, and social security—was poorly understood and likewise viewed with suspicion. Innovation and investment therefore languished. The effectiveness of the government's extensive recovery program was reduced. Although economic conditions on the whole improved, business remained sluggish and the unemployed still numbered over eight million as late as 1940.

From the storm and stress of the 1930's our economy has been able, however, to draw new strength in more recent years. The insurance of bank deposits and of savings and loan accounts, the long-term amortizable and insured mortgage, unemployment insurance, and tax revenues that respond sensitively to changes in the national income—all these automatic devices for curbing the rapidity with which a recession cumulates are an inheritance from that decade. More important still is the emergence of an attitude of mind which refuses to accept passively the antics of the business cycle or ways of dealing with recession that have been tried and found wanting.

The present generation looks to the government for leadership in reducing economic instability; and the basis for this confidence has been improving. To be sure, if the business or consuming public chooses to speculate widely in inventories, a general curtailment of production is bound to follow sooner or later. Or if plant expansion proceeds with great rapidity in many lines of activity at the same time, a temporary condition of overcapacity may easily develop and require correction. Nor are these the only developments that can cause general economic activity to contract. The essential objective, however, is not to prevent all contractions, but rather to maintain an environment that curbs excesses from which recessions often spring and to keep such recessions as do occur from degenerating into severe depressions. Recent history indicates that our

public policies can be shaped so as to powerfully promote this broad objective.

II

In contrast to earlier generations, which stressed developments in financial and commodity markets, the modern tendency is to think of business recessions largely in terms of unemployment. Of course, not all of the unemployment that exists in our dynamic society is a grave social evil or problem. Some unemployment reflects the fluctuations of the seasons or the frictions of the labor market, where the search of enterprising men and women for better work opportunities is always important. This minimum of unemployment is practically irreducible over any short period, although not in the long run. No good measure of it is available, but in recent years economists have commonly taken it to be something like 4 per cent of our labor force. In other words, a condition of practically full employment is believed to exist when the unemployment rate is about 4 per cent or smaller. In our latest encounter with recession, however, the government did not allow this crude yardstick or any other convention to get in the way of prompt countercyclical action.

When economic clouds began to gather in the late spring of 1953, the government was alert to the possible danger of depression. A sizable accumulation of inventories by retailers and wholesalers was one of the first visible signs of impending trouble. A decline in the length of the work week in manufacturing was another. By mid-year it became clear that the build-up of stocks had been involuntary. Retail sales were sluggish, business expenditures on inventories began declining, and these developments were soon aggravated by the drop of military spending which followed the cessation of hostilities in

Korea. The efforts of businessmen to adjust inventories to current sales led to some reduction in output, and so too did the decline of governmental expenditure, particularly for defense outlays. In consequence, employment fell off appreciably in manufacturing industries, and to some degree in other parts of the economy. But the depression that many feared or expected did not develop.

In its new role of responsibility for the maintenance of the nations's prosperity, the federal government deliberately took speedy and massive actions to build confidence and pave the way for renewed economic growth. In May 1953, the Federal Reserve System moved to ease credit conditions by embarking on extensive purchases of securities in the open market. In late June and early July, a bolder step was taken, namely, the reserve requirements of member banks were reduced. This shift to a policy of credit ease was made before economic activity, viewed in the aggregate, had begun declining. In September, the Secretary of the Treasury removed any doubt about early tax cuts by announcing that the Administration would relinquish the excess profits tax and accept a reduction of the personal income tax, both of which were scheduled by earlier legislation for the end of the year. This unequivocal declaration of tax policy, like the earlier moves in the credit sphere, was made when the reported rate of unemployment was less than 2½ per cent. By January 1954, when the President submitted his Economic Report to the Congress, economic activity had already been receding for six months. The latest figure of unemployment then stood at 3 per cent. New and revised statistics which showed more serious deterioration were not as yet available. But, anticipating some extension of the economic decline, the Economic Report counseled the Congress that it "makes a vital difference whether an unemployment rate of 3 per cent is reached by rising up to that figure or declining to

it," and that "prudence as well as zeal for economic improvement require that public policy contribute both to the immediate strength of the economy and to its long-term growth."

The President therefore recommended a broad program of legislation. High on the list were tax proposals which, besides correcting various personal inequities, would serve to stimulate business enterprise—through liberalized depreciation allowances on new investments, through fuller treatment of research and development outlays as current expenses, through partial tax credits to recipients of dividends for the income taxes already paid by corporations, and through the extension of the carryback of losses in reckoning income for tax purposes. These reforms of the tax structure were intended to supplement the removal of the corporate excess profits tax and the reduction of the personal income tax averaging about 10 per cent for most taxpayers, which had just become effective. The President also requested legislation to expand the scope and raise the benefits provided by the old-age and unemployment insurance systems, to extend and liberalize credit facilities for home ownership, to foster more energetically the clearance of slums and the rehabilitation of blighted neighborhoods, and to improve the nation's highways. Over the next few months the Congress largely adopted the President's recommendations. It also added a sizable cut in excise levies which, even after allowing for an increase of 1.3 billion dollars in social security contributions, brought the various tax reductions for individuals and businesses that became effective in 1954 to the huge figure of 6.1 billion dollars on a full-year basis.

These major steps to create an atmosphere favorable to the resumption of economic growth were reinforced by other actions, largely of an administrative character. The Federal Reserve authorities lowered the discount rate early in 1954 and later again reduced the reserve requirements of member

banks. Governmental aid was projected for some hard-pressed industries—notably, to shipbuilding through a new construction program, and to zinc and lead mining through a revised stockpiling program. Some effort was made to assist hard-pressed localities by channeling government contracts to them and by boosting the allowable rate of accelerated amortization on such industrial investments in these areas as served to strengthen the nation's defense base. The ordinary housekeeping activities of government were managed with an eye to the immediate needs of the economy. For example, the Veterans Administration speeded up the processing of loan guaranty applications, the Federal Housing Administration did likewise with applications for loan insurance, the Department of Agriculture expedited arrangements to stimulate private construction of grain elevators, the Internal Revenue Service made advance payments to taxpayers who had been overassessed prior to final determination of the overassessment, the Bureau of Public Roads lost no time in implementing its expanded financial authority, and so on from one governmental bureau to another. Beyond these housekeeping steps, the Administration sought to check the decline in governmental spending, which in the case of the Defense Department had gone considerably further in the first half of 1954 than had been either planned or anticipated. A modest rescheduling of expenditure within the total set for fiscal year 1955 was adopted, with a view to raising somewhat the government's planned spending for the first six months of the year and thus reinforcing the processes of economic recovery which, while already visible on numerous fronts, were as yet of uncertain strength.

These actions to curb the decline of economic activity did not express the unfolding of any master plan in which all details had been worked out in advance and every contingency provided for. Not only is this sort of thing practically impossi-

ble, but any determined attempt to realize it could invite disaster. No two recessions ever run the same course; unforeseen developments are bound to occur; and measures that work well in one situation may work badly in another. A wise government will therefore seek to maintain flexibility in its approach and be prepared to do more in one direction and less in another, besides trying new measures. It will not entrust the nation's fate to a categorical economic forecast or to a rigid economic program.

There are, however, major principles suggested by experience that can usefully guide governmental efforts to check a recession. The first principle is that when the economy shows signs of faltering, prompt countermoves are required. Even mild measures on the part of government can be effective in the early stages of an economic decline. On the other hand, if action is withheld until a recession has gathered momentum, strong and costly measures may prove insufficient. Second, efforts to check a recession have to be coordinated, so that the steps taken by different agencies of our far-flung government may reinforce one another. Third, as far as possible every item of legislation or administrative action, whether it be of short- or long-range character, should encourage consumers and business firms to look with hope and confidence to their own and their country's economic future. Fourth, the actions taken should be on a sufficient scale to give reasonable promise of checking the recession, yet not so powerful as to stimulate extensive speculation or other excesses that may create trouble later. Fifth, while monetary, fiscal, and general housekeeping measures must to some degree go together, they need to be spaced so as to give the private economy a reasonable opportunity to carry out necessary adjustments and to muster its latent strength. Sixth, and by way of partial corollary from the three preceding principles, the emphasis at the start of a reces-

sion should ordinarily be on the easing of credit conditions, later on tax reductions for both individuals and businesses, still later on rescheduling of federal expenditure within totals set by long-term considerations, and—only as a last resort—on large public works programs. Of course, advance planning is essential, if public works expenditures are to be accelerated when they may be urgently needed to bolster the economy and if they are to be concentrated, as they should be, on projects that can be completed in relatively short periods and that will serve to support rather than to restrict the opportunities for private enterprise. Seventh, since no two recessions are alike and since they occur under different circumstances in a nation's life, the policies of government must be sensitively adjusted to the individual case. Thus, international factors and considerations of national security may at times justify giving early and preponderant emphasis to expansion of governmental expenditure.

These are the broad principles that guided governmental thought and policies during the recession of 1953–54 and imparted a certain unity and strength to the government's individual actions. That, of course, does not mean that all the measures taken proved fruitful. For example, the program for aiding depressed localities accomplished little beyond demonstrating a need for stronger or at least different measures. Again, the rescheduling of expenditures for the fiscal year 1955 was delayed in execution and became effective when it was no longer needed. But the program as a whole worked out reasonably well. A crash program such as many urged at the time was avoided. Governmental enterprises were kept from multiplying. Yet the contraction in economic activity never reached serious proportions and lasted only a year. At its lowest point, employment in nonagricultural establishments was only 3½ per cent below the preceding peak. Personal income declined

still less, while disposable income—that is, personal income after taxes—defied the recession by actually increasing.

Natural forces of economic recovery, the continuance of prosperity abroad, and the safeguards provided by earlier legislation—all had a part in this outcome and in the great economic advance that followed. But the government also played its part. It did not leave the fate of the economy to the automatic stabilizers or to good fortune. It intervened actively and its measures proved effective—in large part because they were disciplined by general principles which had roots in experience and therefore commanded wide assent both within and outside the government.

III

We began to make progress as a people in solving the problem of depression only after we became sufficiently aroused to seek workable solutions. In recent years, many citizens have come to feel that we have been preoccupied with the need to prevent the miseries of depression, when in fact that matter was already being handled fairly well, while we have slighted the injustice and hardships that flow from inflation, when in fact these have been multiplying for a generation. Concern over inflation has been increasing. It has not yet become articulate enough to wring from the Congress a declaration of policy that would have a moral force such as the Employment Act exercises with regard to unemployment. On the other hand, any return to the pegging of yields on government securities, which contributed materially to the sharp rise in the general price level during the years immediately after the war, has today become almost unthinkable. With increased understanding of the need to curb inflation, the classical remedies for inflation—credit restraints and a balanced budget—are again in good re-

pute and have of late been diligently applied. These are considerable advances. They have surely helped to keep the rise of the consumer price level since 1954 within moderate bounds. But just as surely they have not sufficed to stop inflation.

The application of credit restraints began early in the new expansion. Government officials knew that the measures that had been taken during 1953 and 1954 to build confidence, particularly the actions taken with regard to credit and taxes, carried the risk of exciting overconfidence and subsequent reaction. Already in the closing months of 1954 the sharp rise of stock prices and the financial methods used by builders to push sales of new homes caused some concern. Signs of speculation multiplied during the early months of 1955 as expansion of both credit and economic activity proceeded rapidly and on a widening front. Therefore, starting in January 1955, the government adopted one measure after another with a view to checking economic exuberance.

Although the demand for bank loans was abnormally high, the Federal Reserve authorities reduced their holdings of government securities, as they usually do in the early months of the year. Commercial banks therefore found it necessary to sell government securities or borrow at the Federal Reserve Banks to maintain their lending. The Federal Reserve authorities also raised stock margin requirements and the discount rate. The Treasury decided to tap the long-term capital market and put out a substantial issue of forty-year bonds. The Federal Housing Administration and the Veterans Administration reduced the maximum maturity and raised the minimum down payment on governmentally underwritten mortgages. Both agencies also put an end to the occasional but highly dubious practice of including the closing costs on the purchase of a home in the face value of underwritten mortgages. The Federal Home Loan Bank Board imposed limits on lending by the

Home Loan Banks to savings and loan associations. Government officials warned lenders that their progressively more liberal terms for financing instalment sales of automobiles were fraught with danger; and, to emphasize the government's concern, the several bank supervisory authorities added a section on consumer credit to their regular examination forms. These and related actions to restrain credit expansion were all taken by the late summer of 1955. In the meantime, the clamor to reduce taxes was successfully resisted, and the fiscal year 1955 ended with federal expenditures 3.2 billion dollars below fiscal 1954 on an administrative basis and 1.4 billion below on a cash basis.

Thus, as this recital indicates, the government moved rather promptly to curb the inflationary forces that gathered during 1955. Moreover, the effort to restrain general credit expansion has since then been continued unremittingly. The discount rate was raised time and again. Pressure on the reserves of commercial banks became more intense. As a result many people found it harder to obtain loans, and credit became more costly than it has been in a long generation. Nor were the restrictive measures taken by the government confined to monetary actions. In 1955 the stockpiling program was adjusted within the limits permitted by law and defense requirements, so as to relieve the shortages of vital materials felt by the civilian economy. Earlier plans to finance the new Interstate Highway Program by borrowing were abandoned in 1956, and additional taxes on gasoline and other automotive products were enacted to make this program self-financing. Proposals to cut tax rates continued to be resisted successfully. And the higher tax revenues, which the advance of prosperity kept generating, permitted a modest reduction of the federal debt in fiscal year 1956 and again in fiscal 1957, despite the recent increase of federal expenditures.

This is an impressive record. All the same, when governmental policies are viewed in their entirety, it is clear that the efforts to resist the inflationary pressures that developed after 1954 neither ranged as widely nor carried as much weight as the measures that had previously been adopted to resist recession. Nothing that was done to curb inflation matched the dramatic tax cuts of 1954 or the reduction in bank reserve requirements of both that year and the preceding year. No general increase in taxation was enacted by the Congress. No increase in reserve requirements was ever ordered by the Federal Reserve authorities. No issue of long-term bonds was put out by the Treasury between the summer of 1955 and the fall of 1957. The lifting of the discount rate was carried out in a series of small steps. The increase of minimum down payments in connection with federally underwritten mortgages came merely to 2 per cent of the purchase price. Even the security holdings of the Federal Reserve System had their ups as well as their downs, and they were practically as large at the end of 1956 as at the end of 1954.

Beyond this, the restrictive measures taken by the government were accompanied by other actions of an expansive character which culminated in 1956—a year during which wholesale prices rose sharply while consumer prices also resumed their advance. Increases in the pay of federal employees were enacted in 1955 and became effective in July of that year. An increase in the hourly minimum wage from 75 cents to a dollar became effective in March 1956, increasing directly the wages of two million workers in private industry. Price support levels for various agricultural crops were raised in 1956. Special export programs for agricultural products were pushed energetically. A new Soil Bank Program was enacted and government purchases for the school lunch and related programs were increased. Lending by the Small Business Ad-

ministration was stepped up. Various of the special restrictions on housing credit that had been adopted during 1955 were either relaxed or dropped, and massive support of the mortgage market was extended by the Federal National Mortgage Association. The old-age insurance program was liberalized, with effects on the flow of incomes that were delayed, however, until 1957. Expenditures increased in connection with numerous other programs. Between July 1956 and July 1957, total federal expenditures on a cash basis rose 7.4 billion dollars over the preceding fiscal year, while cash receipts rose only 5.1 billion. In consequence, the cash surplus declined from 4.5 to 2.1 billion dollars.

Viewed individually, many—if not all—of the expansive actions taken by government during 1955 and 1956 were meritorious in high degree. They were inspired partly by considerations of the national defense, and partly by the concern with people's welfare which must go hand in hand with the encouragement of private enterprise in our times. With the nation's prosperity increasing, it seemed only natural to take some constructive steps in behalf of the sectors of our economy that had failed to participate in the nation's general progress or that felt the impact of credit restraints most severely. With wages rising rapidly in the private economy, it seemed only prudent to raise the pay of governmental employees. With tax revenues growing abundantly, it seemed only proper to use a portion of the increased wherewithal to reduce somewhat the outstanding public debt, and yet leave enough to increase defense outlays and expand other programs that seemed essential or socially desirable. All this was done. The increase in federal expenditures thus helped to swell the nation's aggregate monetary demand at a time when physical resources were already being strained by the rising demands of business firms, consumers, and state and local governments, many of whom also

felt that their augmented spending was only natural, prudent, and proper. With the economic community at large, including the several levels of government, striving to add to consumption or to capital investment more quickly than the nation's workshops could add to production, some advance of both the wholesale and consumer price level became unavoidable.

It is true that federal spending increased much less rapidly than did the nation's total expenditure after 1954. It may justly be held, however, that there was a need for special restraint on the government's part at a time when the rest of the economy was displaying extreme exuberance. In the process of raising its expenditures and taking other expansive actions, particularly with regard to agriculture and wages, the policy of the federal government for containing inflation came to rest increasingly on the general credit restraints administered by the Federal Reserve System. This was a heavier burden than our monetary authorities could of themselves properly handle.

IV

The American people are nowadays broadly united on major goals of economic policy—a high and stable rate of employment in relation to the labor force, expanding production, improvement in living standards, and a reasonably stable consumer price level. The federal government has sought to promote these objectives. It has done this with increasing understanding that prosperity cannot be ordered or guaranteed by government officials.

A nation's prosperity rests fundamentally on the enterprise of individuals seeking to better themselves, their families, and their communities. It depends far more on what individuals do for themselves than on what the government does or can do for them. The government may, however, significantly influ-

ence the course of our economy by pursuing policies that stimulate private citizens to act in ways which will tend to sustain prosperity. Considerable success has attended governmental efforts in recent years to maintain an environment that favors higher production, expanding employment, and rising living standards. The purchasing power of the consumer's dollar has not, however, been maintained. It is true that the rise in the price level that has occurred since 1954 is moderate by historical standards. However, in view of the rigidity which of late has characterized the wage level and only to a lesser degree the price level during economic contractions, still greater moderation of price advances must be sought during economic expansions in order to prevent a creeping type of inflation in the future.

Although governmental resistance to inflation has significantly stiffened of late, it is difficult to avoid the conclusion that the government is not yet prepared to act as decisively to check inflation as it is to check recession. In the event of a recession, the general attitude of government is apt to be that everything which is at all reasonable must be done without much delay, and that if inflationary pressures develop later as a result of the stimulants that are applied, they will be dealt with in due course. On the other hand, once inflationary pressures emerge, the government is unlikely to proceed in the spirit that if a recession develops as a result of its restrictive measures, that difficulty in turn will be dealt with in good season. Rather, the attitude is apt to be that, while everything which is at all reasonable must be done to curb inflation, restrictive policies must not be applied on so vigorous a scale as to take any appreciable chance of bringing on or hastening a recession.

Such weighting of the scales of economic policy, however

slight, is probably unavoidable in the existing state of public opinion. While the government has the broad responsibility of leading the nation along sound economic channels, no Administration that is too far removed from the prevailing sentiments of the people can long continue to govern. When a threat of unemployment develops, a clamor for governmental intervention comes from all directions. On the other hand, when the price level begins rising, pressures for governmental action are less insistent. Not only that, but governmental steps to curb inflation are sure to be loudly resisted by many, while measures to curb unemployment are just as sure to be applauded in most quarters. There can be little doubt that although people generally and genuinely wish the consumer price level to remain reasonably stable, they also fear depression more than they fear inflation. The catastrophe of the 1930's is still fresh in our memories and the sort of inflation that we have had is rightly viewed as the lesser evil by comparison.

Our economic and political environment, however, has been radically transformed over the past quarter century. Serious depressions are no longer the threat they once were, while creeping inflation has become a chronic feature of recent history and a growing threat to the welfare of millions of people. Not only is a creeping inflation unnecessary to the continuance of prosperity, but it can in time become a grave obstacle to it —either because the inflation may get out of hand or because, if inflation should continue for many years its gradual inroads on the pocketbooks of people, their concern over inflation may mount to a point where they will be unwilling in the event of a recession to support any large governmental efforts to hasten recovery. These considerations are better understood today than they were only a few years ago. But they are not yet understood widely enough. Nor, speaking broadly, have people

as yet developed the same sense of justice toward the sufferers from inflation that they have come to feel with regard to the sufferers from unemployment.

If we are to make better progress in dealing with inflation, the first requirement therefore is better and wider public understanding of the need for a solution. But we must also recognize the shortcomings of our recent public policies and try to improve upon them. However necessary and helpful a balanced budget and a restrictive monetary policy may be in the age-old struggle against inflation, it is doubtful whether they alone can cope with the threat of creeping inflation.