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Defense Without Inflation, by Robert G. Hart

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DEFENSE WITHOUT INFLATION. By Albert G. Hart.* New York: The Twentieth Century Fund. 1951. Pp. xiv, 186. \$2.00. '

Under the respected imprimatur of the Twentieth Century Fund, Professor Hart has prepared this conspectus of the battle against inflation. On the basis of his survey, the Fund's Committee on Economic Stabilization, consisting of Professors Clark, Schultz, Smithies and Wallace, have briefly summarized their views on the problem. Generally, they agree with the prescriptions of Professor Hart.

It is good to know that, amidst the weltering confusion of special pleas, self-serving briefs and nutty nostrums, men of learning, experience, wisdom and common sense are brooding upon vital issues and affording us the benefit of their cerebrations. One might wish that to them had been added an economic journalist with, shall we say, the gifts of Stuart Chase. This volume, far too sketchy for the purposes of the professional scholar, is designed, presumably, for the eye and mind of the citizen seeking enlightenment. But such a citizen, for all his good purposes, finds it hard going when five professionals gang up on him.

However, even one who is patently no intellectual may derive benefit from this little chart through the perilous paths of partial mobilization. Such a one will find here a healthful antidote to the monolithic creeds being preached in so many economic quarters by the right-wing counterparts of the radical money bugs who abounded on the fringes of the left during the depression days.

Professor Hart and his colleagues do not, of course, minimize the role of fiscal and monetary measures in stabilizing the economy. On the contrary, they argue that control over the money supply is even more essential during a long-pull partial mobilization of "readiness" which may last for a decade, than during a more temporary season of all-out war.

The choice, as Professor Hart describes it in terms of "equilibrium," "mild disequilibrium," or "severe disequilibrium," is whether to try for

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upstream or downstream control of the inflationary flood. Upstream control aims at choking off the supply of money and credit. Thus the flood is caught nearer the source. Downstream control aims at damming the flood, after it has gained momentum, by means of direct controls which leave the money supply relatively unaffected: price ceilings, rationing and allocation of scarce supplies, and wage stabilization.

Although Professor Hart is somewhat squeamish about dealing with the politics of inflation, it is likely that in a democracy such as ours the plans emerging from the process of pull and haul will, like the measures hitherto adopted for controlling floods in the Missouri Valley, borrow something from both systems, and not necessarily the best. Certainly the advocates of a single, *simon pure*, theological approach will derive no comfort from this volume.

During World War II, as Professor Hart points out, we allowed a severe disequilibrium to develop. That is to say, we allowed the money supply to increase by leaps and bounds, relying primarily upon direct controls to hold the line against inflation. The results were more successful than one might expect: from the passage of the Stabilization Act in October, 1942, until the fighting stopped, the line held. This was despite the fact that Congress refused to impose the taxes requested by President Roosevelt, and only 40% of the cost of the war was paid out of current taxation. Furthermore, the Treasury, and under Treasury prodding, the Federal Reserve Board, adhered to the same cheap money policies which had been adopted during the depression as weapons against deflation.

As Professor Hart makes clear, the direct control, or disequilibrium policy is not only capable under certain conditions of repressing inflation, but also contributes a certain positive force to the mobilization effort. These advantages were, even during World War II, obtained only at the price of a severe post-war inflation. It was a policy of postponement rather than containment. In a period of "readiness" mobilization, the disadvantages are more likely to be present, and the advantages less obvious.

Therefore, both Professor Hart and the Twentieth Century Fund's Committee advocate severe restraints on the expansion of money supply. Such restraint, they believe, would be the greatest possible contribution to stabilizing the national economy. Such a prescription calls for restraint upon consumer credit in the housing and other durable fields; not only as a means of combatting monetary inflation, but as a substitute for crude and ineffective rationing schemes in fields of specific scarcity. It calls also for a reversal of monetary policy by the Federal Reserve Board—a reversal at least partially achieved between the writing and

printing of this volume. Certainly, as the Committee puts it, we cannot stabilize the economy by pegging the price of government bonds if it means letting all other prices go through the roof.

Most important of all, Professor Hart and his colleagues prescribe a drastic increase in taxes—about three times as great as the increase recently voted by the Congress. Budget “economies,” while given the usual pat on the back, obviously do not excite these authors as a source of great anti-inflationary strength. The desired revenues can be obtained, says Professor Hart, by increasing the rates of existing taxes, income, corporate and excise, and without resorting to new imposts such as a federal sales tax. Though the author advocates strongly the maintenance of traditional incentives as a source of efficiency and flexibility during the “readiness” period, he apparently has no fears for the economy’s virility under such a fiscal regimen. However, he does have reservations as to the advisability of drastic taxes on excess profits, preferring personal and excise taxes as the chief source of new revenues.

While emphasizing fiscal and monetary measures as the principal items on our anti-inflationary agenda, Professor Hart and his reviewing Committee do not join forces with the monetary extremists of the Hayek-Hazlitt school: to whom all direct controls are anathema and the maintenance of the free market a fetish. Rather, the authors recognize what is too often overlooked: that many direct controls have their origin in the requirements of mobilization rather than stabilization. The government must make sure that those who supply it with munitions and other sinews have what they need when they need it. The orderly withdrawal of resources from the civilian market necessitates a considerable measure of direct control. The maintenance of a healthy and productive civilian economy necessitates additional measures lest a mad scramble for what is left disrupt the entire scheme of mobilization.

This may not be obvious to those whose acquaintance with mobilization economics has been largely by way of seminar and retreat, but it is obvious to the authors of this little book, as it is to anyone who has dealt with these vexing matters first-hand.

From direct controls as an aid to mobilization, it is only a step to selective controls as a weapon in the anti-inflationary armory. In time of all-out mobilization for war, when achievement of monetary equilibrium is virtually impossible, general controls on a wide front are inevitable. Even then their efficacy can be sustained only by patriotic sentiment, and a fervent hope that the hardships of war are drawing to an undated but certain conclusion. In time of “readiness” mobilization, general controls of a direct nature must of necessity partake of a stop-gap

character; there are simply too many political and psychological obstacles in the way.

On the other hand, Professor Hart and his colleagues believe that a substantial number of direct controls are required to supplement the inevitable deficiencies of fiscal and monetary measures in combating inflation during a long period of partial mobilization. This is particularly necessary during the "hump" period of rapid capital formation.

One other familiar fallacy gets a deserved *coup de grace* in these pages. That is the musty old adage that "the only way to lick inflation is to increase production." Professor Hart has found more answers to this one than a Congressman has amendments to a price control bill. Increased production generates increased income, and therefore approaches economic neutrality. Ordinarily production cannot be increased without taking manpower and materials out of the already restricted civilian market, thereby at least temporarily aggravating the inflationary pressures.

Professor Hart does, however, recognize what appears to this reviewer the wisest single decision made during the mobilization period: Mr. Charles E. Wilson's determination to anticipate the long pull of partial mobilization by deliberately increasing the productive capacity of the national economy approximately 25%. By this imaginative foresight, we are assured an over-all economic capacity sufficient to meet the needs of mobilization and at the same time maintain and expand the civilian standard of living. The temporary hardships incident to this policy will pay ample dividends.

From this brief survey, the reader may gather that it is the reviewer's intention to commend this volume of Professor Hart's. Such a deduction would be correct. It would be hard to find, among academic pronouncements, a more balanced, a more thoughtful a more disinterested or a less tendentious treatment of such a mooted set of issues.

At the same time, this reviewer must pick a few flaws lest he contribute to the demise of a noble profession.

For a book of less than 200 pages, too much space is devoted to the collateral problems of mobilization and not enough to the specific problems of stabilization itself. While the views of the author on such matters as the likelihood of Russian attack in Europe and the desirable level for our armed forces to reach during the next two years may be interesting, it is questionable whether they possess enough intrinsic authority to merit inclusion here at the expense of other matters, such as the techniques of price control and wage stabilization during a period of "readiness."

Indeed, in this field, one whose experience and approach are perhaps all too practical may feel that the author and the Committee alike have let him down a bit. One reads the volume and discerns clearly that Professor Hart and his academic senate believe that some wage and price controls are desirable, but not too many; that a general freeze of prices and wages may be temporarily required, but cannot last long. Apart from these truly valuable and well-supported conclusions, the citizen and the public official alike will search in vain for principles to guide him on his rocky road.

This contrasts strikingly with the detailed treatment afforded to fiscal and monetary matters, even to charts of projected revenue yields. Yet, it is in the application and functioning of control mechanisms that guidance is most needed. Previous experience in this field is likely to afford the least reliable indications as to the proper courses of action today.

Even so, some judgments are pronounced, albeit hesitatingly, by Professor Hart rather than by the collective mind at the end of the book. (This method of treatment, incidentally, may be regarded as a variation of the old elementary school textbook with its "answers in the back of the book.") After carefully weighing the pros and cons, the author concludes that escalator clauses, parity formulas, guaranteed profit margins, cost-plus contracts and the Schlichter variable bond, all must stand condemned. The author is not unmindful of the purposes which such devices sometimes serve, especially in the case of wage contracts, in reconciling divergent or rebellious groups to the rigidities of a stabilization line. On balance, Professor Hart feels that such a "hold-the-line" policy puts too many eggs in one basket, and in the all too likely event that early efforts to find a defensible line do not avail, subsequent efforts are less likely to succeed.

This was not the case with the "Little Steel" formula of World War II, which followed upon earlier failures to hold the line with selective controls, but which managed to survive, albeit in battered form, until the fighting had ended. In one respect, however, the "Little Steel" formula differed from the escalator clauses now sanctioned. It escalated for past increases in the cost of living, but contained no guarantees for the future; it was an escalator with terminal facilities. Doubtless its survival was a tribute to the stiffening of price and rationing controls which followed, and which succeeded in holding subsequent rises in living costs to a few points in the index. Doubtless a steeper rise would have knocked the caboose off the train, but at any rate the formula worked,

In some respects it is difficult to reconcile Professor Hart's adverse judgment on escalator clauses with his frequently expressed belief that direct controls in a period of partial mobilization must be more flexible than in a total mobilization. Possibly the adverse judgment is confined to the temporary period of a "freeze" during which presumably—but not, in fact—tighter monetary and fiscal policies are to catch hold.

No policy which pretends to call itself stabilization can succeed if every politically significant group is able to immunize itself completely from the hardships and injustices which inevitably attend every effort to establish a defensible price line. Professor Hart realizes this, and that is his basic reason for condemning the "built-in" devices. On the other hand, considerations of economic justice cannot be wholly ignored even during mobilization crises, and escalator clauses do afford some protection to the lower-income groups who suffer most from inflation. In an effort to avoid the worst consequences of escalation and achieve some of its social benefits, Professor Hart squints approvingly at the so-called Canadian compromise, which permits escalation on a graduated scale, with primary benefits for wage earners in the lowest brackets.

For escalation outside the wage contract, whether by way of parity, or guaranteed profit markups, Professor Hart essays no defense.

One wishes, however, that either the author or his colleagues had somewhere in their opus attempted to grasp the nettle of some specific sector of the control program. My own candidate for such intensive treatment would be meat. After years of dealing with difficult cases involving the interstate transportation of liquor, the late Justice Brandeis once sighed that the curse of the Supreme Court was whiskey. To anyone who bears the scars of price control in action, meat is, always was and always will be the curse of price control. It is almost safe to say that any control program which can control meat can control anything. Yet, save for an offhand Committee reference to rationing, there is little here about meat. To some at least, this seems like "Hamlet" without Hamlet and my personal acquaintance with most of these estimable gentlemen is the basis for the conclusion that they are not all vegetarians.

Yet it seems churlish to complain because economists are not political magicians. Meat, like so many of the white-hot issues of stabilization policy, is more a political than an economic problem. It is, of course, not easy to formulate a program which will command the assent of men qualified to judge. Nevertheless, this volume is enough to demonstrate that it might be done.

But to persuade, cajole, threaten and scare the contending and suspicious economic groups, and the solons who think they can divine

the whims and caprices of them all, into effectuating the agreed-upon policy is another matter. The efforts to maintain some degree of stability during the reconversion period after World War II, for example, simply fell apart under the fierce and almost hysterical pressure of internecine economic warfare. The result was not only to belie every prediction made by those responsible for premature dismantling of the control machinery, particularly as to the stability of the price level and the volume of production; but, as Professor Hart is so acutely aware, to make the task of our present administrators infinitely more difficult.

Here is a field of study almost unexplored, and one which should commend itself to the splendid public spirit of the Twentieth Century Fund. Not merely in fighting inflation but in the effectuation of all economic policies, the rock upon which democratic government seems most likely to flounder is the rock of divisive pressure politics. How can we keep government responsive to the demands of popular opinion and at the same time make it possible for public servants to legislate and administer in an unbadgered and rational atmosphere? Such a challenge offers the Fund opportunity for an effort worthy to rank with the study which Professor Hart and his associates have completed with such distinction.

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