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Managing Inflation in a Full Employment Society

By ROBERT LEKACHMAN

ABSTRACT: Reconciliation of full employment with price stability requires at least four and possibly five significant alterations of American institutional practices, each of which relates to equity of sacrifice and reward. The first four policy innovations include an unqualified federal guarantee of full employment; income maintenance at decent levels for individuals unable or unwilling to work; an incomes policy based upon mandatory federal controls over the prices of large corporations and the fees of physicians, dentists, lawyers and other professional workers; and serious attention to redistributive taxation on grounds of equity and controlled inflation. If these measures discourage private investment, a fifth policy comes into play: the socialization of a growing portion of the private sector and a consequent expansion in the importance of the public economy.

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FULL employment without significant inflation *is* possible, but only in a community significantly different from the United States in the 1970s. This article describes the rearrangements of power, privilege, income and wealth that are essential for combining price stability with full employment.

Inflation, as a secular tendency, is the consequence of validation by monetary authorities of more claims upon gross national product (GNP) than there is output, at current prices, to be distributed. So long as real growth is substantial, the process is only moderately inflationary and, on the evidence of the post-World War II experience, politically tolerable in democratic societies. Current immoderate rates of inflation are the consequence of pressure of world population upon food supplies and a historic reversal of the terms of trade between advanced resource-importing nations and the less developed sovereignties of the Persian Gulf, Indonesia, Venezuela, Libya, Jamaica and Nigeria. Because quite suddenly the annual growth increment previously shared, however unequally, among families of rich, middle, and low economic estate has vanished, inflation rates in Europe, Japan and the United States have doubled or tripled.

The prerequisites of full employment within the context of price stability all relate to equity of sacrifice and equity of reward. These prerequisites are immediately four in number and, in the longer run, a probable fifth as well. They are:

1. an unqualified guarantee by the federal government of public employment as a reliable alternative to private sector jobs in both good and bad economic weather;
2. for those unable or unwilling to work, income maintenance at decent levels as a matter of right;
3. an incomes policy (including mandatory controls) focused upon large corporations, professional societies and unions, as powerful and permanent as the organizations which necessitate this public check;
4. serious attention to redistributive taxation on grounds both of equity and price stability;
5. and, in the predictable future, a gradually increasing public and diminishing private sphere of activity, a realization of the Keynesian vision of a "somewhat comprehensive socialisation of investment."[1]

The remainder of this article consists of explanation of the above five-point agenda.

PUBLIC JOBS

In 1974, well-intended congressional job creation proposals, save for one outstanding exception, handled their problem as temporary. Thus S. 2993, introduced on February 8, 1974 by Senator Jacob Javits—Rep., New York—and several colleagues, links itself to the energy crisis, defines "a special program of emergency energy employment," triggers outlays at six percent general unemployment, and speaks throughout in the rhetoric of "transitional public service employment opportunities."

Transitional positions are likely to be second-class jobs, evaluated suspiciously by civil service associations and public employee unions as probable infringements upon

1. *See,* John M. Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt, 1936), p. 378.

benefit, job protection and wage standards won over years of painful negotiation. The new jobs are exceedingly likely to be attacked as leaf-raking or hole-filling activities to be eliminated as promptly as possible. Existing public preferences for private over public activity are certain to be reinforced by the transitional approach.

A far superior design is embodied by H. R. 15476, sponsored by Congressmen Augustus Hawkins —Dem., California—and Henry Reuss—Dem., Wisconsin—as well as Senator Hubert Humphrey—Dem., Minnesota. Their proposal, a revival and extension of the 1945 Wagner-Murray Full Employment Bill (which in emasculated form survived as the Employment Act of 1946), aims "to establish a national policy and nationwide machinery for guaranteeing to all adult Americans able and willing to work the availability of equal opportunities for useful and rewarding employment." The statute's short title contains both its objectives and an estimate of time needed to achieve them: "This Act may be cited as the 'Equal Opportunity and Full Employment Act of 1976.' "

Unlike S. 2993, this bill imposes permanent obligations upon Congress and the White House. The president is responsible for the formulation of an annual full employment and production program, updated at six-month intervals. The president is further instructed to convert existing Manpower Reports into detailed labor analyses and careful job vacancy surveys. The United States Employment Service, pleasantly retitled the United States Full Employment Service, will henceforth harbor as a new instrument a Job Guarantee Office charged with offering "useful and rewarding employment for any American, able and willing to work but not yet working, unable otherwise to obtain work and applying to such office for assistance." The office is free to contract with private and voluntary agencies, as well as local planning councils under public auspices.

As a serious and sophisticated attempt to grapple with the concrete details of comprehensive job guarantees, this proposal is notable for a humane definition of employability, emphasis upon social and economic equity, and regard for quality of life. As recent deterioration in the ratio of black to white income reminds us, high employment is mildly egalitarian, and sluggish labor markets are invariably hostile to late-comers to the American celebration—minorities, women and the young.

In the context of anti-inflationary concern, an additional equity consideration obtrudes itself. As intelligent conservatives perceive, monetary and fiscal restraints invariably increase general unemployment in socially inequitable ways. Thus it was in 1974 that Federal Reserve Chairman Arthur Burns, a wistful believer in free markets, nevertheless endorsed Senator Jacob Javits' $4 billion job creation scheme out of a recognition that the old-time religion of tight money and slashed federal budgets is politically facilitated by job creation efforts which mitigate the consequences of these acts.

Unqualified job guarantees promise a number of additional social gains. Public sector expansion is energy and resource thrifty when new jobs are located in health delivery, education, property and personal protection, environmental conservation and cultural amenity.

Permanent full employment encourages job redesign, flexible working schedules, study and recreational sabbaticals, and humanization of life in factories and offices. Finally, full employment promotes social cohesion and integration into the labor force of that unemployed and underemployed underclass whose presence Gunnar Myrdal postulates as the mark of an underdeveloped community.

INCOME MAINTENANCE

American income maintenance programs include old age and survivors' benefits, veterans' pensions, Aid to Families with Dependent Children, food stamps, and a variety of other measures which accurately include subsidies to defense contractors and other needy corporate citizens. Eligibility is premised upon defined status: honorable in the case of veterans and the elderly, dishonorable in the circumstances of welfare clients. Neither legislatures nor courts have promulgated a general right to public income support, although intermittently courts have moved tentatively in the direction of providing due process protections to welfare beneficiaries. The Nixon Supreme Court retreated in recent cases toward an older conception of welfare as gift or gratuity instead of badge of membership in civilized society.

Even on expanded criteria of employability, some persons can not work. Others, because they prefer either the care of young children or an alternative life style, do not wish to work. In all probability, the members of both categories are a small percentage of the labor force. Since unwilling men and women are unproductive employees, the argument on both efficiency and equity grounds is compelling for substitution of income maintenance for existing categorical grant programs.

By far the most convenient mechanism is the Negative Income Tax (NIT), preferably in an explicitly redistributive version. Any NIT is defined by the existence of a basic grant and a tax upon any earnings which at some breaking point reduces the grant to zero and enlists the grant recipient in the company of ordinary taxpayers. At current prices, a $1,000 per person basic grant in tandem with a 50 percent tax upon earnings would comprehend as potential beneficiaries many fully employed but low-paid men and women. Until a person reached an income of $12,000 as head of a family of four, he or she would gain either in outright cash subventions or in tax reductions.[2]

The numbers one prefers to attach to basic grants and taxes on earnings reflect the degree of income redistribution which is desired and the quantity of essential health, psychiatric, and social services available at zero or low cost. Should Congress enact universal health care, liberalize food stamps, and fund an adequate supply of public housing and mass transportation, even egalitarians would favor lower basic grants and higher compensating taxes upon earnings than they would when these necessities are scarce and expensive, as they are now.

The most persuasive virtue of the NIT is its association with individual dignity. Existing welfare administration degrades both those who grant benefits and those who receive them. By contrast, universal income guarantees substitute the neutral, if universally detested, bureaucracy of

2. In mid-1974, the income median was $12,000.

the Internal Revenue Service (IRS) for disdained welfare bureaucrats.

It is difficult to escape the judgment that malevolence, contempt for the poor, low regard for "losers," and eagerness to blame victims (to borrow William Ryan's expressive language) are implicated in public reluctance to move from a generally excoriated welfare system to simple, more dignified, and ultimately less expensive alternatives. Nixon's Family Assistance Plan (FAP) failed partly because Mr. Nixon sabotaged his own proposal, partly because critics on the left criticized its malign combination of meager benefits and covert violations of civil liberties, but largely because, despite quantities of Nixon rhetoric in praise of workfare and payrolls as substitutes for welfare and welfare rolls, conservatives persisted in tagging FAP as a giveaway of taxpayers' hard-earned dollars to morally unworthy folks, many of them having the poor taste to be black, unmarried or both.

CONTROLS

Among economists, traditional dislike of price and wage controls is allied to a strong preference for free markets. On the one hand, these markets register the shifting tastes and preferences of the customers and, on the other, the responses of sellers to these tastes within the constraints imposed by the need to hire labor, acquire space, purchase raw materials and borrow money. The preeminent charms of the free market are two-fold: it operates by itself, and all the actors, to recall Alfred Marshall's comment, are moved not by altruism, a weak impulse, but by self-interest, an exceedingly well-developed one. Slow-witted consumers are often astounded by this displeasure with their purchases. But, if they are capable of learning from experience, they gradually and of their own accord improve the quality of their market selections. Stupid businessmen, who misjudge their market and spend their scarce cash on inappropriate combinations of the factors of production, go broke in short order. The resources which they misapplied pass into the control of more efficient rivals. This is tough on the losers but splendid for the economy as a whole.

Like other branches of theology, free market economics represents an idealized version of human conduct. Accordingly, the case for permanent controls is associated with a shortage of free markets, the affection of most Americans for large scale in corporations as well as defensive linemen, and the consequent reluctance of politicians effectively to apply anti-trust statutes to the giant corporations which dominate the American economy. In their respective industries, the four largest corporations control 99 percent of automobiles, 96 percent of aluminum, 80 percent of cigarettes, and 72 percent of soaps and detergents.[3]

Market power confers upon those who possess it the discretion to choose, within varying but usually wide limits, combinations of high prices and reduced sales or alternative packages of low prices and larger sales.[4] The resources of

3. Professional societies in their own way restrict output and raise costs. Minimum fee schedules promulgated by bar associations and mutually beneficial alliances among the American Medical Association, Blue Cross and hospitals have turned lawyers and doctors into affluent Americans.

4. A case in point: in 1974 General Motors and its gigantic playmates were confronted by declining sales and profits. They *raised* their prices five times on 1974 models and an additional 8 to 10 percent on 1975

oligopolists are large enough to encourage expenditures upon advertising, marketing, and the subornation of politicians, which manipulate rather than respond to the market. Fortunately, this freedom is less than complete, as such spectacular failures as the Edsel indicate. Nevertheless, the options are real enough to render into fantasy the economists' vision to consumers' rationally choosing items which maximize their satisfaction within the constraints of their limited incomes. In concentrated industries, dominant firms usually opt for the inflationary strategy of high pricing and heavy advertising.

Economists cling to their love of free markets out of loyalty to their own training and also because free market theory is such a beautifully articulated intellectual structure. When textbook discussion turns, usually somewhat uneasily and therefore rather briefly, to monopoly and oligopoly, authors generally agree that these departures from competition raise prices, reduce output and waste resources on advertising. How can they explain these embarrassments? As Edwin Mansfield's new introductory volume glumly confides, "there is no single unified model of oligopoly behavior."[5] Apart from outright collusion, the theoretical explanations offer a choice between Paul Sweezy's 1939 *jeu d'esprit*, the kinked demand curve, and Von Neumann's and Morgenstern's 1944 exercise in the theory of games.

Departing from the conventional wisdom on this score, I believe that bad theory is worse than no theory at all—an intellectual posture which implies that appropriate reactions to inflation require, as heavy supplements to received economics: common observation, a sense of the realities of economic and political power, and an application of enlightened ethics. Life is untidy, and the causes of inflation are multiple. Among them are: policy blunders; the politics of Vietnam escalation and the manipulations of the Committee to Reelect the President; detente as a reelection ploy; bad luck, bad weather and mutinous anchovies; Earl Butz and Herbert Stein; Organization of Petroleum Exporting Countries' price-rigging; world population pressure; and, in 1971 and 1972, simultaneous business cycle peaks in the leading trading nations.

One ought not exaggerate the efficacy of even wholesome remedies. Wage and price controls will not improve the behavior of Arab oil producers or alleviate food and fertilizer shortages or improve the distribution of monsoon rains. But wage and price controls, intelligently applied by controllers who believe in their own actions, *do* appropriately react to that element of inflation which derives from the exercise of concentrated market power. Since in the foreseeable future large economic units will continue to play the leading roles in manufacturing, finance and transportation, and their managers will continue, in the absence of public control, to engage in unsupervised private planning, the need for effective public supervision is urgent.

In our economy, the true policy choices are not between planning and competition; they are between

models. No Seventh Avenue garment jobber in a fiercely competitive trade would have acted in like manner. The small and temporary rebates announced in early 1975 are a poor substitute for competitive behavior.

5. *See*, Edwin Mansfield, *Economics: Principles, Problems, Decisions* (New York: Norton, 1974).

private planning guided by the self-interest of autonomous corporate officials and private planning supervised by elected public officials and their agents. Hence wage and price controls, land use standards, environmental and occupational safety regulations, even rationing and allocation, are *not* distortions of competitive markets for the adequate reason that such markets are of diminishing consequence. Rational controls and regulations afford the community a chance to correct the distortions imposed upon resource use and allocation by the operations of concentrated and irresponsible private economic power.

As has been noted, cost-push inflation is always evident or incipient in American and other capitalistic economies. In the past two or three years, American unions have behaved with unusual restraint and at considerable cost to their members, partly, one may guess, because of an unsympathetic administration in Washington. In the absence of effective White House economic leadership, the temptation is likely to become overwhelming soon to seek new contracts which embody wage and benefit improvements far in excess of probable productivity gains, both to compensate union members for the ravages of past inflation and to protect them from the ravages of future inflation. In concentrated industries, large corporations routinely pass on their higher labor costs to the customers, usually with a dollop of added profit for consolation.

The recent record of economic forecasters demonstrates anew that prophecy is hazardous. All the same, I venture to guess that by late 1975 wage-price controls will either be in renewed effect, along with other rational anti-inflationary and anti-recessionary measures, or a revival of the politics and policies of 1969 and 1970 Nixonomics Mark I, will plunge the economy into a deep depression.[6]

If controls are to be effective, they must also be permanent and equitable. From mid-1971 to the end of 1972, Nixon's Phase 1 and Phase 2 controls restrained wages more effectively than property income. Reluctantly, unions went along with modest wage guideposts. A second time around, however, neither the unions nor any other organized group will accept controls which are perceived as unfair. Equity evolves from experience as well as intuition and political belief. Should wage and price controls become accepted as permanent institutional necessities, a case law of equity is likely to evolve from the flow of decisions made by the controllers.

Controls liberate monetary and fiscal policy, but they are no substitute for appropriate credit and budgetary maneuvers. During severe inflations, effective controls facilitate monetary policy by limiting the corporate borrowing required to finance inventories at rising prices. By diverting demand to controlled industries,[7] controls correspondingly diminish demand

6. The 1969–1960 experiment was pursued long enough to cause a recession, but, fortunately, not long enough to turn it into a depression, probably because a presidential election was approaching. The parallel between 1969–1970 and 1974–1975 is incomplete: the inflation is far worse in the latter period, and so are the surrounding realities of world resources scarcity, real and artificial.

7. Save in rare times of exceptional stress, I assume that controls will zero in upon large corporations, the unions with which they negotiate, and the stronger professional societies. These are the major loci of concentrated market power.

elsewhere and depress prices in the uncontrolled sector.

In much the same way as public job creation is an essential response to the unemployment caused by anti-inflationary endeavors, controls are the necessary accompaniments of fiscal and monetary responses to excess demand by consumers and investors and cost-push impulses from major corporations and, on occasion, from unions. The extent and variety of the controls are left open to question here. Congress will be well-advised to grant controllers considerable discretion in how they respond to various types of inflation.

In sum, controls ought to be as pervasive as the departures from the economists' ideal of free competition. One should ask no more, but it is dangerous to settle for less.

TAXES

Since 1961, three presidents and seven Congresses have conspired to reduce taxes five times, thrice across the board in 1964, 1969 and 1971, and twice selectively in 1961 and 1965. As a result, between 1955 and 1970 corporate income taxes as a percentage of federal collections dropped from 20 to 12 percent. During the same 15 years, payroll taxes nearly doubled, ascending from 8 to 15 percent. Corporate taxes, falling partly on stockholders, are progressive. Payroll taxes are notoriously regressive. According to Brookings Institution studies, the Treasury would now be $16 billion richer each year if the 1969 and 1971 slashes in personal and corporate income taxes were repealed.

As conservative economists are well aware, and as liberal economists repeatedly forget when they advocate stimulating tax reductions, every tax cut narrows the revenue base to support such liberal projects as income maintenance, public housing, universal health care, manpower training and community development.

In the present severe inflation and equally severe recession, the outlines of an effective and anti-inflationary tax program are easy to sketch. New taxes should be imposed and old ones collected upon large inheritances and gifts, corporate profits, large private incomes and the numerous tax shelters which now protect the wealthy.[8] The $25 to 35 billion that conservatively could be raised by tax revisions of this kind ought, in the interests of rough justice, finance new public employment, reduce payroll levies on low-wage earners, finance income maintenance as a matter of right, and support new initiatives in health care, low-cost housing, and cheap and convenient mass transportation. If $10 billion were initially devoted to public jobs, an equal amount to tax relief and income maintenance, and $5 billion to an improved package of social services, the net impact would be redistributive but not inflationary.

Such a redistribution *is*, and optimistically can be made to appear, fair.[9] At best it could serve as part of an implicit social contract which justified both corporate and union self-restraint. As tax benefits became available, real take-home pay for

8. The usual list begins with mineral depletion allowances, goes on to real estate tax shelters, foundation devices, corporate expense accounts, tax-free municipal bonds, capital gains rackets, concealment of earnings by multinationals, and on and on.

9. I am uneasily aware that what is here proposed bears resemblances to Senator McGovern's ill-fated 1972 platform. I am inclined to think that Mr. McGovern was not so much wrong as premature, but this is an argument for another occasion.

average workers would cease to fall and begin once more to rise. Just as important, rank and file outrage at soaring prices and profits would be alleviated as controls bit on corporate pricing policies.

When growth slows or stops, equity necessitates equitable redistribution of the existing economic pie.

SOCIALIZATION OF INVESTMENT

This proposed package of public job guarantees, income maintenance as a new personal freedom, limitations upon property and labor income, and redistributive taxation is certainly open to the criticism that it promotes consumption and discourages innovation and investment. As the conventional argument goes, higher corporate taxes and higher levies upon large personal incomes discourage the taking of entrepreneurial chances on new products, processes and markets, and dampen into the bargain the incentives of corporate executives clambering company ladders. Losing heart, the corporate man may relax his efforts, lengthen his holidays and weekends, and transfer his capital to Swiss or Belgian banks.

Of course, it is not necessary to swallow such self-pity whole. Sweden, a country whose standard of living by some measures approximates the American, has for more than half a century been administered by social democrats who have followed far more egalitarian tax, social service, manpower and housing policies than has the United States. What probably counts for more than after-tax income toward one's rank in the pecking order is pretax salary and perquisites. It is not at all likely that halving Mr. Geneen's princely compensation of $900,000 or so and adjusting his subordinates' stipends accordingly would cause Mr. Geneen and his associates to sulk and go home with their marbles. For true competitors, corporate style, it is winning that counts and not necessarily the size of the purse, except in comparison with what other winners are collecting.

This theory could be wrong. It is possible that the present scale of rewards to managers and entrepreneurs is essential to the evocation of their efforts and talents. As a secular tendency, then, private investment would sink, and in the absence of response by public authorities the well-known multiplier impact of reduced investment would diminish aggregate demand and employment and slow growth to a halt.

For my part, I should regard such a scene with equanimity if not positive delight, for, with luck, the threat of enduring depression would create favorable opportunities for the expansion of public investment to fill the gaps in economic activity opened by deficient private production. If one believes, as I do, that our single greatest national need is an expansion of those communal enterprises which distinguish civilized from uncivilized societies, then the threats of entrepreneurs and rentiers lose their terror.

Although it is unlikely that another $25 billion or so extracted from the strong and affluent will seriously alter the American version of market capitalism, I would cheerfully take the chance and invite others to join me.