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Aggregate Supply, Remedy for Unemployment, Inflation

SUPPLY MANAGEMENT POLICIES that will increase economic incentives for investment and work are the specific remedies for endemic, and often acute, unemployment and inflation. Let us examine the proposition that endemic and acute deficiencies in supply are responsible for increasing rates of "normal" unemployment as well as occasional increases that exceed "normal" levels. We can agree that in order to stimulate employment it is necessary to provide business with high profit expectations. But that is not enough.

We need to increase incentives among the unemployed to want to work. Inadequate incentives for the voluntary application of both capital and labor in greater measure has led to a sluggish rate of economic growth in the United States of only 4 percent per year. Too much of our real income has gone to non-producers.

In a system of private enterprise, the immediate goal of supply management policies for increasing employment and reducing inflation is that of providing adequate incentives and opportunities for individuals and businesses so that they will voluntarily decide to increase production by working, saving and investing. This implies that excessive unemployment and inflation are the result of practices, institutions, attitudes and values that have weakened work and investment incentives. Conversely, it implies that changes in these institutions, practices, attitudes and values are necessary in order to strengthen work and investment incentives. This approach to the goal of full employment contrasts with demand management policies which "accept" the weakened condition of incentives and hope, none-the-less, to revive real investment incentives and job opportunities by means of inflation.

Institutions, practices, attitudes and values that reduce economic incentive and opportunity for individuals have received a great deal of attention historically and still do today. However, concern over these factors yesterday and today is not based upon, not related to their (macro-economic) significance with respect to employment and the general price level. Yet these factors are as important to the economy as a whole as they are to its parts.

Economic incentive to invest and work, and thereby increase employment and production (which in turn would keep prices from rising as much) is at a maximum when all of the national income is channeled into the hands of those who contribute to production. This does not preclude a public sector whose activities are supported by the vast

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majority of producers (1). Unfortunately, the system of private enterprise in the United States has suffered an erosion of those very incentives upon which its well-being depends. This erosion is both endemic and to some extent acute as it tends to fluctuate with and facilitate short-term changes in the economy.

The rivulets of erosion of economic incentive are countless. However, it seems that most of the real national income which is drained off to non-productive individuals can be grouped into the following categories: 1. The economic rent of land; 2. monopoly and the restraining of competition; 3. waste and inefficiency; 4. crime, and 5. transfer payments. These conditions drain the productive vitality of the private enterprise system since they cause a large portion of the real national income to be siphoned off from the potential real wages of workers and potential real profits of investors in capital (2). Each of these drains is a blight on the economy and, in one way or another, increases costs of production, reduces profits and wages, discourages investment and the desire to work, decreases productivity and increases unemployment and inflation.

While these income drains can more fully account for the endemic unemployment and inflation of our system of private enterprise, they are also at least partly responsible for the acute symptoms of these economic ailments. There seems to be ample evidence that the economic rent and value of land, monopoly profits, waste, inefficiency and crime increase at faster rates than the gross national product during periods of relatively full employment and prosperity. These rapidly rising drains on investment and worker income tend to dry up investment and work incentives to the point where total employment increases very little or not at all, and the rate of unemployment may rise (3). [From a paper, "Tax Policy—Effective Fiscal Control for Full Employment Without Inflation," presented Nov. 15, 1976 before the National Tax Association-Tax Institute of America.]

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1. Knut Wicksell, quoted in R. A. Musgrave and A. Peacock, eds., *Classics in the Theory of Public Finance* (New York: 1958).
2. Capital is here defined in the traditional economic sense to mean man-made goods intended for further production, thus excluding land and other natural resources.
3. If the work force itself increases as it has during the 1970s, it is possible for both total employment and the rate of unemployment to rise simultaneously.

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