Some Pros and Cons of Inflation

By SELIM N. TIDEMAN

THE Chicago Daily News recently published a series of articles summarizing the results of a questionnaire on the subject of inflation of prices. The questions were sent out by a committee, appointed by Senator Byrd, to study the subject and return recommendations. Seventy-one replies were received and resulted in a 758-page report. The results fall into five classifications.

1. *Advancing wages:* Wage increases and other benefits obtained by expensive strikes add to the cost of living of unorganized members of society and benefit no one. Labor now gets 70 per cent of the national income and with the present tax structure there is no more to be had. Compulsory union membership is condemned, unions should be placed under the anti-trust laws and national federations restricted. Comment: A closed shop union should be open to anyone who wishes to join it and, if skilled, provide for training as many apprentices as desire to join.

2. *Excessive Profits:* Business should consider the public welfare in making prices and is threatened with a government Board of Review (without ultimate authority) to police all price changes. Price agreements are not mentioned, nor is it suggested that national business organizations be restricted or abolished.

3. *Government Spending:* Stop ballooning government spending, federal, state and local. Transfer federal services to local levels. Discontinue present farm policies, doubly inflationary, designed to raise prices at the expense of the nation. Discontinue airport subsidies, reduce spending for roads and other public works. Scrutinize handling of defense funds. Reduce government.

Comment: It is a pitiful fact that, until the cold war is brought to an end, the many possible economies will have only fractional effect on the budget.

4. *Taxation:* Our tax policy comes under greatest criticism. The corporation income tax, all withholding taxes and all indirect taxes go into the price of goods and inhibit business expansion. Income taxes encourage debt, because interest is deductible from taxable income.

Comment: As for business expansion, we have, in terms of constant dollars, 1.6 times the corporate earnings, after taxes, that we had in 1926-29, the biggest years in history previous to 1940.[1] In 1957 the net national product was \$434 B., private new investment in business and housing \$67 B., government expenditures at all levels \$114 B. Including \$27.5 B. interest and subsidies paid out by our governments, the personal income available for our daily life was \$280 B., or 65.5 per cent of production.[2] Advancing land values are an important source of inflation and a tax on land values, taking the place of other taxes, would eliminate the equivalent of the rent of land from the cost of production. Permitted deduction of real estate taxes from taxable income encourages great estates to engage in land speculation, which is inflationary.

5. *Credit Policy:* Give increased power to the Federal Reserve System to

cover non-member banks, savings and loan associations, installment financing and mortgage debt. Coordinate government lending and spending agencies so that they do not work at cross purposes. Have a federal agency regulate interest on the government guaranteed mortgage debt. Retire short term government securities in favor of long term, placed with investors, not with banks. This tacitly, means willingness to pay higher interest on government bonds.

Comment: Let us translate the classical "Quantitative Theory of Money" into simple terms.

$$\text{Price} = \frac{\text{Quantity of Money} \times \text{Demand for Goods}}{\text{Quantity of Production}}$$

It can readily be seen that this equation would only hold good in a free economy. If prices are regulated by monopolies, the equation fails.

The quantity of money can be regulated by credit policies. Money derives from conversion of the instruments of debt and these can be reduced or reserved against. Total debt structure, public and private in 1957 was $726 B.[3]

Demand for goods can be decreased by reducing wages and profits. This will reduce prices and bring unemployment and depression.

There remains the factor of production. We have not yet discovered the limits to which it can be increased in a free economy. Increase would reduce prices. A 35-hour work week would stimulate inflation.

So what is the net answer? Eliminate monopoly in land, labor and capital and have full production. But this answer poses another tenet. There is a basic principle of ethics that is sidetracked by nearly all economists.

The accumulation of paper values is a great social privilege. In times past the benefit to society balanced the privilege and society paid interest to the accumulator. Now business is largely financed from current profits and the right to buy a crop of potatoes today with the identical money obtained by selling one 30 years ago is being questioned, not by a banker nor perhaps by an idealist, but the nature of our economy. Inflation has the effect of cancelling out interest on debt.

As for run-away inflation, it can only result from the government being too weak to collect taxes or the business structure too weak to pay them. The government debt structure must be honored in the terms of its indenture.

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1. Historical Statistics, P. 155.
   Statistical Abstract of the United States, 1958 table 612.
2. Statistical Abstract of the United States, 1958 table 380.
3. Statistical Abstract of the United States, 1958 table 482.

CITIZEN'S GIFT

Urquhart Adams of Edmonton sent us the following printed notice, which accompanied a recently received dividend. He also very kindly enclosed dividend check of $17.50 as a gift to the school. Thank you, sir!

"The enclosed cheque represents your dividend for the year 1958 as a citizen-owner of Alberta's oil and gas resources. This cheque is not a rebate of tax money but is a direct share in the new wealth created by the development of oil and gas resources owned by you and your fellow citizens.

"Until 1957 all royalties from gas and oil were used for capital programs of the province and municipalities. To help maintain consumer buying power it was decided in 1957 to set aside for citizens' dividends one-third of all royalties received from the development of oil and gas during the year. This amount is then divided equally among all eligible citizens of the Province. The dividend is a little smaller this year than last owing to the reduced amount of oil for which markets are available at the present time."