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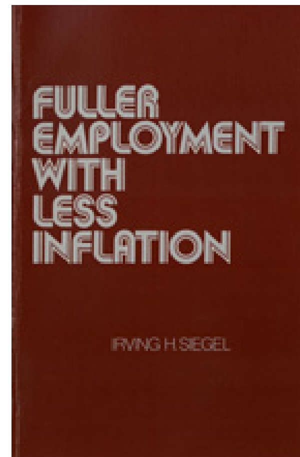
Looking Backward and Forward



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1980

1
Looking Backward and Forward

Orientation

This essay, which briefly surveys the nation's recent economic performance and the variety of informed opinion concerning needed corrective policy, is intended particularly as background reading for the nine essays that follow it. All of the nine have been published previously. Indeed, four of them comprised the slimmer 1969 edition of this book. The original title of 1969 has been retained for this new enlarged edition because it has become even more apt with the passage of time.

In the interval between the two editions, politicians, policymakers, and professional economists in general have come to recognize the durability of a phenomenon that they had been inclined to regard as transient: the coexistence of high rates of unemployment and of wage-price increase. Officeholders learned in the 1976 and 1980 election campaigns that the waggish "misery" or "discomfort" index, which merely summed together the unemployment and inflation rates, could change from a toy to a dangerous weapon in the

hands of officeseekers.[1] Zealous economic factions—monetarists, rational expectationists, supply-siders, and post-Keynesians—have emerged to challenge and mock the "neoclassical synthesis," the paradigm that reigned supreme in macroeconomic textbooks since the end of World War II yet failed

> to suggest how the goals of full employment and price stability could be achieved conjointly, thus avoiding the need to make a Phillipsian choice between the two—or even to explain how recession and inflation could occur simultaneously, as they did throughout the 1970s.[2]

The Phillips curve itself started as a simple statement of trade-off between unemployment and inflation, but it has had to undergo extensive reformulation for continuing ser-

1. The "discomfort" designation is often attributed to A.M. Okun. Candidate Carter used the adjective "misery" in taunting incumbent Ford in 1976; in 1980, incumbent Carter was, in turn, the target.

Instead of simply adding the annual percentage change in prices to the average annual rate of unemployment, some index makers have proposed (1) the introduction of weights and (2) the inclusion of the annual percentage in Gross National Product as a third component with a negative weight. See, for example, a letter to *The Economist* (London), November 29, 1980, p. 6.

2. A.S. Eichner, "Introduction," in A.S. Eichner, ed., *A Guide to Post-Keynesian Economics,* M.E. Sharpe, White Plains, 1979, p. 10.

The attack on ruling doctrine is well described in a special issue of *The Public Interest,* 1980, entitled "The Crisis in Economic Theory," especially these four articles: J.W. Dean, "The Dissolution of the Keynesian Consensus," pp. 19-34; A.H. Meltzer, "Monetarism and the Crisis in Economics," pp. 35-45; M.H. Willes, " 'Rational Expectations' as a Counterrevolution," pp. 81-96; and Paul Davidson, "Post Keynesian Economics: Solving the Crisis in Economic Theory," pp. 151-173. Another informative paper is by Brian Kantor, "Rational Expectations and Economic Thought," *Journal of Economic Literature,* December 1979, pp. 1422-1441. It should be noted, in passing, that Keynes was too broad and complex a thinker to be characterized as a "Keynesian" in the sense in which this adjective has commonly been used since his death in 1946. On this point, see, for example, T.M. Humphrey, "Keynes on Inflation," in *1980 Annual Report, Federal Reserve Bank of Richmond,* pp. 5-16.

viceability as a tool of analysis and econometric estimation.[3] In 1978, the Employment Act of 1946 (P.L. 79-304), which expressed a federal resolve "to promote maximum employment, production, and purchasing power," was at last revised to include the additional explicit resolve of promoting "reasonable price stability."

The remainder of this essay is organized into four sections. The first reviews the nation's experience of unemployment and inflation since the end of World War II in context with the Employment Act and the law that drastically amended it in 1978, the (Humphrey-Hawkins) Full Employment and Balanced Growth Act (P.L. 95-523). The second section examines the sources of the inflation that has persisted since the mid-1960s and that has occasioned the preparation of the two editions of this book. The third section samples the views of economic and other experts on the prospects and methods of disinflation and the restoration of wholesome growth. The concluding section comments on the need—and a way—to mitigate the unemployment side-effects of a probable major campaign to achieve disinflation.

By design, this essay is confined to literature and other public information available in 1980. Accordingly, it does

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3. Illustrative of the writings on the evolving Phillips curve are: two papers by Milton Friedman, "The Role of Monetary Policy," *American Economic Review,* March 1968, pp. 1-17, and "Inflation and Unemployment," *Journal of Political Economy,* June 1977, pp. 457-472; E.S. Phelps, "Phillips Curves, Expectations of Inflation, and Optimal Employment Over Time," *Economica,* August 1967, pp. 254-281; G.L. Perry, "Slowing the Wage-Price Spiral," in A.M. Okun and G.L. Perry, eds., *Curing Chronic Inflation,* Brookings Institution, Washington, 1978, pp. 23-55; G.L. Perry, "Inflation in Theory and Practice," in *Brookings Papers on Economic Activity,* 1:1980, pp. 207-241; Philip Cagan, *Persistent Inflation: Historical and Policy Essays,* Columbia University Press, New York, 1979, especially Chapter 8 on "The Reduction of Inflation and the Magnitude of Unemployment," and Chapter 9 on "The Relation of Inflation to Slack Demand"; Gennifer Sussman, "A Summary and Critique of the McCracken Report," an appendix to C.E. Beigie, *Inflation Is a Social Malady,* British-North American Committee, March 1979, pp. 60-72; T.M. Humphrey, "Changing Views of the Phillips Curve," in his *Essays on Inflation,* 2d ed., Federal Reserve Bank of Richmond, 1980, pp. 62-73; and *idem,* "Some Recent Developments in Phillips Curve Analysis," *ibid.,* pp. 74-82.

not presume to predict or prejudge the final economic agenda of the new Reagan Administration. It does, however, take some cognizance of viewpoints and proposals that have acquired greater political authority as a result of the November elections.

Between—and Behind—the Acts

Although the declared purposes of the Employment Act and the Humphrey-Hawkins Act have commonly been characterized as "commitments" or "mandates," they are better described as unfulfillable "resolves" or breakable "pledges." The first pair of words have a solemn and unconditional ring already belied by initial experience in administration of the 1978 law—as well as by the long history of argumentation over the practical meaning of the 1946 law. Reality stands in no awe of congressional or executive rhetoric, and nowhere has it flouted federal fiat more plainly than in the quest for high-level employment with stable prices.

The heart of the landmark Employment Act of 1946 was a single 11-line sentence constituting a "Declaration of Policy" (Section 2), and the arms were a new Council of Economic Advisers (which would assist the president in preparation of an annual report) and a joint congressional committee (which would receive and review the report). The single sentence asserted, but with eager qualification, a "continuing policy and responsibility of the Federal government" to promote the three objectives already cited. Despite the minimal machinery and the omission of any explicit reference to stable prices, no president in office between 1946 and 1978 ever felt inhibited from taking steps to deter or counteract inflation. If authority were deemed necessary, it could always have been read into the notion of maximum "purchasing power."

The Humphrey-Hawkins Act announced quantitative unemployment and disinflation objectives and dates for substantial progress toward them. Thus, as provisional unemployment goals for 1983, it specified reduction of the jobless rate for the labor force as a whole to 4 percent and of the rate for persons 20 years old and older to 3 percent; and it also aimed for moderation of the rise in the Consumer Price Index to 3 percent by the same year. Furthermore, it contemplated achievement of still lower unemployment rates corresponding to "full employment" by some unstated later date; and it called for a "zero" price rise by 1988. But the law has a loophole: It allowed revision of the indicated schedules, and the president (and the Congress) exercised the permitted option to defer at the earliest opportunity! The 1978 commitment, then, is no firmer than the 1946 resolve; and, although jobs and prices seem to have become twin pillars of public policy, they also remain the horns of a dilemma of policy.

Historically, it is as easy to explain omission of price restraint from the 1946 charter for federal involvement in the functioning of the economy as to explain inclusion in the 1978 amendments. During World War II, formal controls masked the inflationary potential that would burst into being in the aftermath. Meanwhile, full or overfull employment was discovered to be feasible—a welcome contrast to the idleness of the 1930s, when price "reflation" was also deemed healthier than further price reduction. Before 1946, the bear and the bull were the best-known members of the popular and professional economic bestiary, and the spoor of "stagflation" was not yet suspected. Existence of the new brute was hinted in the 1950s and 1960s but did not become confirmed until the 1970s.

Funny things can—and do—happen to a bill on the way through a quorum, as anyone acquainted with our nation's

legislative process is aware. S. 380, wishfully called the "Full Employment Act of 1945," lost its adjective and its principal parts in a familiar rite of passage. It was replaced by the far less ambitious Employment Act of 1946, which represented the maximum consensus attainable at the time.[4] This law has often since been miscalled the "Full Employment Act of 1946"—out of defiance, nostalgia, or simple ignorance. On the other hand, some of the strong supporters of S. 380 later came to recognize that its failure to become law was providential to the reputation of economists and that the Employment Act of 1946 was not a hollow mockery after all.[5]

With the unexpected maintenance of high-level employment after World War II, attention soon shifted to the problem of price moderation in the decontrolled economy. How many of the unhappy warriors who would not forgive or forget the Capitol crime against S. 380 have remembered that President Truman called the Congress into special session in November 1947 to consider a 10-point program for dealing sternly with the post-control price explosion? Truman's phrase, "do-nothing Congress," still lingers in the ear; but who recalls that the plausibility of this bit of campaign hyperbole rested in part on the failure of a second special session to accept the president's anti-inflation pro-

4. The evolution of S. 380 into the Employment Act has been recounted by S.K. Bailey, *Congress Makes a Law,* Vintage Books, New York, 1964.

5. Robert Lekachman refers in *The Age of Keynes,* Vintage Books, 1966, p. 173, to the "unwitting service to the reputation of economists" done by the Congress in rejection of the "key section" of S. 380. J.K. Galbraith adds, in *Money: Whence It Came, Where It Went,* New York, Bantam Books, 1976, p. 323: "It is doubtful if those who participated in the first drafting of S. 380 . . . would, in the light of later history, have asked for much more." Contrary to a common impression, L.H. Keyserling, who had served in the Truman Council of Economic Advisers, did not share in the "liberal" enthusiasm for S. 380 and also considers the Employment Act preferable; see his "The Council of Economic Advisers since 1946: Its Contributions and Failures," *Atlantic Economic Journal,* March 1978, pp. 17-19.

posals in June 1948?[6] Furthermore, how many of today's "liberal" admirers of Truman know that his Council of Economic Advisers was already expressing concern that collective bargaining imparted an upward bias to prices?

In the 1950s, the increasing inflation-proneness of the economy was concealed only temporarily by the strict wage-price controls prompted by the Korean conflict. Before the end of the first Eisenhower term and well into the second, upthrusting industrial prices caused considerable official alarm. The practice of "fiscal prudence" and the preachment of wage-price-productivity truisms had little evident effect; but, at high cost in unemployment (which could have influenced critically the outcome of the 1960 presidential election), tough monetary measures did help to rein in prices by the end of the decade. Some economists were coming to see that inflation was the head of a price coin and deflation the tail of an employment coin, so that both of these faces could show simultaneously.

The price bulge manifested in the middle Eisenhower years was negligible compared to the uptrend of 1965-80, but it provoked sharp and quick dismay—as did also the price upsurge that followed the lifting of World War II controls. The slow public responsiveness after the 1940s and 1950s need not show that the nerves improve with the aggravation of the inflationary disease. Rather, it may be another sign of the ease with which a wealthy, developed country could, at last irreversibly, turn into another volatile and frenetic *mañana* republic.

In the 1960 and 1961 *Economic Report of the President,* the last two of the Eisenhower Administration, the earlier price bulge was still remembered: The suggestion was made

6. J.G. Knapp, *Edwin G. Nourse—Economist for the People,* Danville, IL, Interstate Printers and Publishers, 1979, pp. 263-64 and 280-81.

that the Employment Act be amended to include reasonable price stability as a fourth explicit objective. Perhaps, it is not irrelevant that two of the three members of the Council of Economic Advisers at the time had experienced the disastrous German hyperinflation of the early 1920s.

The 1960s began with great expectations of a New Economics on a New Frontier, proceeded to inauguration of a Great Society, and ended in a New Ordeal of inflation that still rages. In the first half of the decade, unemployment was reduced dramatically with little price advance—thanks to the legacy of Eisenhower slack, to the adoption of wage-price-productivity "guideposts" and their occasional reinforcement with presidential threats, and to the bold and overcelebrated tax cut of 1964. In the second half of the decade, while the New Economics was still congratulating itself, fiscal discipline broke down; increasing involvement in Vietnam, the expansion of "uncontrollable" expenditures for social welfare, and rising private demand required some reversal of the 1964 tax cut, but a new levy could not be enacted promptly. Like the sorcerer's apprentice, the practitioners of economic activism found that it was easier to turn on the fiscal taps than to turn them off.

In the 1970s, unemployment and inflation finally became recognized by the media and political leaders as inseparable and significant "issues." Recessions engineered during the decade through monetary actions clearly destroyed jobs but failed to reduce the rate at which unit production costs were advancing. Unemployment, furthermore, was worsened by intense foreign competition on our own terrain as well as in markets abroad. Robust productivity gains could no longer be expected to diminish the labor-cost impact of unabating wage rises. A serial revolution in the price of petroleum imports, crop failures, and material shortages also contributed to the upward pressure on costs.

Two presidents felt required to try to block the tide. In August 1971, mandatory wage-price controls were suddenly and surprisingly instituted; in 1973, they were inopportunely dismantled. Another try at restraint was initiated in October 1978, the same month that the Humphrey-Hawkins Act was signed into law; but the new voluntary curbs have proved as ineffectual as their timid and flawed design foreshadowed.

In its 22 discursive pages, the Humphrey-Hawkins Act of 1978 seeks "to strengthen and supplement the purposes and policies of the Employment Act of 1946." Its Section 102 lengthens the 11-line sentence constituting Section 2 of the 1946 law into a 17-line sentence plus 9 largely redundant explanatory paragraphs. The extended sentence upgrades the original employment and production objectives from "maximum" to "full," translates the ambiguous goal of "maximum purchasing power" into "increased real income," and finally adds the goal of "reasonable price stability." It grandly asserts still other economic goals of the heart's desire: "balanced growth, a balanced federal budget, adequate productivity growth, proper attention to national priorities," and "achievement of an improved trade balance through increased exports and improvement in . . . international competitiveness."

Although the rest of the Humphrey-Hawkins Act offers hints as to priorities and preferences as to procedures, any conscientious administrator could distill only equivocal and incomplete guidance therefrom. The trouble is that the many stated objectives have long proved difficult to attain, singly as well as in combination, in the refractory world in which we are obliged to live. In such a world, one might be tempted to dismiss the 1978 Act as a mere manifesto, a "Son of S. 380," a hodgepodge of compromise. Taken seriously, the Act represents no more of a mandate and no less of a resolve

than its 1946 predecessor.[7] Willy-nilly, implementation would have to proceed selectively, judiciously, but with eyes dutifully fixed on all gauges; and different good-faith mixes of emphasis are conceivable and inevitable. A plausible case could be made, for example, for heavy reliance on experience gained in administration of the Employment Act—for accent, accordingly, on attainment of the "best" practicable combination of near-term jobless and inflation rates without prejudice to achievement of more distant target rates. Alternatively, an earnest administrator could start with the view held by many legislators over the years—that the Employment Act had "failed" because joblessness has persisted at intolerable rates, especially for certain visible categories in the labor force. Accordingly, emphasis would be placed on "structural" measures, as outlined in Title II of the 1978 law, for training and placement of disadvantaged minorities, youths, and other potential or actual members of the hard-core unemployed, even at the risk, perhaps, of perceptibly enlarging a few successive federal budgetary deficits.

The Carter Council of Economic Advisers and the surviving primary cosponsor of the 1978 law have disagreed sharply on the strategy of implementation, taking, roughly, the two opposing positions just described. The divergence is especially striking since the Council actively assisted in the framing of the law. In the 1979 and 1980 *Economic Report of the President,* the law was interpreted as a resolve to concentrate on both unemployment and inflation while cognizance is taken of other stated economic desiderata.

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7. The chairman of the National Commission for Manpower Policy, Eli Ginzberg, refers in a paper published in 1979 to the "great many compromises" required by the Humphrey-Hawkins Act "in the final effort to obtain passage" (Clark Kerr and J.M. Rosow, eds., *Work in America: The Decade Ahead,* New York, Van Nostrand Reinhold, p. 84). In another reference to the same Act (p. 261), a prominent labor journalist, A.H. Raskin, speaks of "this belated effort to make real the commitment so artfully fudged in the Employment Act of 1946"—"the right to a job for everyone willing and able to work."

From this view, the practical meaning of the law is that it explicitly adds a price dimension to Employment Act goals, requires the design and discussion of future numerical paths, and properly brings the Federal Reserve into the game. As soon as Section 304 of the law permitted, the president deferred achievement of the original 1983 target unemployment rates to 1985 and of the original 1983 target rate for inflation to 1988[8]—by which time the Consumer Price Index had originally been scripted to be level. Although no new later date was given for this leveling, the event has obviously been postponed to the 1990s.

The surviving principal cosponsor of the 1978 law did not have to wait for the revision of dates in the 1980 *Report* to claim 11 "violations."[9] He found a basis for his charges in the contents of the 1979 *Report* and a *Budget Message* and in the actions of the pertinent congressional committees. According to his interpretation, the reduction of unemployment has a unique near-term priority that cannot be compromised by any immediate concern for inflationary "tradeoff" and that must be supported by structural measures without regard to budgetary consequences. The scenario calls for full production and full employment first, with subsequent price stability and budget balance thereby rendered more achievable. A later statement by the same congressman ignores the 1980 timetable revisions but renews charges of wholesale violation of the law and insists on the need for a budget that is "highly stimulative rather than

8. *Economic Report of the President,* January 1980, pp. 9-10, 90-97. In *The 1980 Joint Economic Report,* Senate Report No. 96-618, 1980, p. 75, the Joint Economic Committee remarked: "While the necessity of revising these goals is certainly unfortunate, it is equally necessary to preserve the validity of the Humphrey-Hawkins process by making the timetable more realistic, particularly in light of long-term economic problems for which there are no easy short-term solutions."

9. "Optimum Growth, Price Stability and Full Employment," an undated statement issued "from the office of Congressman Gus Hawkins."

restrictive."[10] A still later pre-election rebuke of the Carter Administration for failure to implement the law as a blueprint for full employment was planned but not carried out; it was recognized to have much less chance of changing the president's position than of changing the minds of some voters.[11]

The incoming chairman of the Joint Economic Committee, a veteran congressman who fared better than his party in November, made a post-election statement reaffirming jobs and prices as the twin pillars, rather than opposing poles, of policy and asserting the dominance of both in voter judgments:

> The aim of economic policy is full employment without inflation. The Democrats have failed to achieve this aim, and that's why we were thrown out of office.[12]

Genesis of the New Ordeal

As a prelude to examination of the variety of proposed remedies, we note the rather consistent views of the experts on the etiology of the economy's inflation-unemployment disease. In November 1980, the month of critical change in national leadership, unemployment stood at about 7.5 percent of the labor force, the "core" or "underlying" rate of inflation[13] was at or above 9 percent, and a still higher prime

10. *Congressional Record,* House of Representatives, Vol. 126, No. 63, April 23, 1980. The same general position is taken by Congressman P.J. Mitchell in *The 1980 Joint Economic Report,* pp. 106-10.

11. *Washington Post,* September 27, 1980.

12. *Washington Post,* November 14, 1980.

13. The "core" rate, referring to price increases attributable to increases in trend costs of labor and other inputs to production, is distinguished from the contributions of external "shocks" and excess or deficient "demand." See, for example, Otto Eckstein and Robin Siegel, "More on Core Inflation," *Data Resources U.S. Review,* June 1979, pp. 1.19-1.24; and *The 1980 Joint Economic Report,* pp. 34-37.

interest rate that had not yet peaked threatened to throttle a nascent recovery. For all of its results, the "moral equivalent of war" to which the nation had been summoned earlier by President Carter could just as well have been called "oral."

Authoritative economists of all persuasions tend to agree that the nation's economic health began to deteriorate seriously in the mid-1960s. The patient soon lapsed into an "age of the second derivative;"[14] hope of stabilization of the price level was lost, and mere stabilization of the rate of price increase came to be regarded as a "cure." Errors of neglect, diagnosis, and treatment were many; but there is also ample evidence of the poverty and primitiveness of the healing arts, with doctors not knowing what to do as well as unable to agree. Here is a retrospective comment offered early in 1980 by a Nixon economic adviser:

> Much of our failure to control inflation over the past fifteen years can be laid to a lag in perceptions. Inflation first became serious in 1965, but we did not realize how dangerous it was and so failed to adopt strong enough measures to restrain it. As people caught on to the fact that the action was inadequate, they came to expect prices to go even higher. These expectations helped fulfill the prophecy. A self-reinforcing process began that has made inflation more fearsome and difficult to bring down . . . .[15]

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14. Inflation has accustomed economists, and taught the general public, to shift attention from changes in price (and wage) levels to changes in the rates of increase. See the remarks by Herbert Stein, "Achieving Credibility," in William Fellner, Project Director, *Contemporary Economic Problems,* Washington, American Enterprise Institute for Public Policy Research, 1980, p. 46; and by M.N. Baily, in a comment on the first Perry paper cited in footnote 3 (p. 126).

15. Herbert Stein, "The Failure of Carter's Anti-Inflation Policy," *Fortune,* March 24, 1980, p. 50.

A statement offered at about the same time to a congressional committee by the only chairman of the Council of Economic Advisers who has also headed the Federal Reserve System assigns heavy responsibility to the federal government for the "present virulent inflation." He cites the government's bias toward stimulus, its interference with market forces, and its "needlessly expensive ways" of pursuing worthwhile improvements in the quality of living. Concerning the first of these, he said:

> Undue stimulus through fiscal and monetary policy tends to generate inflationary pressures by causing the aggregate demand for goods and services to rise above the level that can be supplied at existing prices. This is how the current inflation was precipitated in the fatal year 1965, when our government sought simultaneously to fight a war in Vietnam and to launch the Great Society at home while reducing tax rates instead of raising them.[16]

He recalled the "unprecedented effort" of the New Economics "to accelerate the growth of an already expanding economy by a massive cut in business and personal income taxes." The gambit "was initially counted as a brilliant success":

> But as our economy was pressed to its limits by expansionist policies, it became highly inflation-prone; and the rest is history.[17]

A prominent "liberal" economist, from the vantage point of 1975, saw an ironic parallel in the 1968 *Economic Report*

16. A.F. Burns, *The Perils of Inflation,* Reprint No. 110, Washington, American Enterprise Institute for Public Policy Research, March 1980, pp. 5-6.

17. *Ibid.,* p. 4. Additional pertinent observations by A.F. Burns are scattered through various papers included in his *Reflections of an Economic Policy Maker, Speeches and Congressional Statements: 1969-1978,* Washington, American Enterprise Institute for Public Policy Research, 1978.

of the President and the State of the Union message sent by Coolidge to the Congress in December 1928; both documents exuded satisfaction in discovery of the keys to prosperity. He discusses "four serious flaws" of the New Economics that are "now wonderfully clear"—the fallibility of forecasting as a basis for action in advance of need, the inadequacy of machinery for dealing with excessive market power of corporations and unions, the undependability of fiscal policy for inflation control via tax increase and expenditure reduction, and a misplaced faith in monetary policy.[18]

The 1979 *Report* acknowledged that "the current inflation has been gathering momentum for over 10 years," attributing the acceleration to the addition of Vietnam pressures to "an economy already approaching high employment." It noted the role of stimulative fiscal and monetary policies in setting the scene for restrictive actions that bring recession. But the purgative power of recession, far from restoring prices to an earlier level, may be overwhelmed by the power of pro-inflationary behaviors encouraged by prior inflationary experience:

> Once under way, a high rate of inflation generates responses and adaptations by individuals and institutions that perpetuate the wage-price spiral, even in periods of economic slack. Expectations develop that wages and prices will continue to rise at a rapid rate. . . . The formal and informal adaptations to a long-standing inflation exert a powerful force tending to sustain inflation even after the originating causes have disappeared.[19]

In June 1977, the Organization for Economic Cooperation and Development published *Towards Full Employment and*

18. Galbraith, *op. cit.,* pp. 326 ff.

19. *Economic Report of the President,* January 1979, p. 55.

Price Stability, the report of a "group of independent experts" headed by a former chairman of the Council of Economic Advisers.[20] The introduction to the report observes that "disquietingly high" rates of unemployment and inflation have followed the unprecedented growth that the Western nations enjoyed in the quarter century after World War II. The title of the first chapter asks "what went wrong," and the first sentence proceeds to answer:

> Going back to the 1960s, in the United States, failure adequately to finance the war in Vietnam and major new social programmes through higher taxes led to increasing excess demand, despite monetary restraint.

The chapter continues with a doleful synopsis of events and actions in the United States and Europe up to the fragile recovery of mid-1975. It concludes that the inflation of the 1960s originated in labor markets while the inflation of the early 1970s originated in product markets (especially for petroleum and various crops); that the combination of "policy errors" (fiscal and monetary excesses) and supply "shocks" has built up stubborn inflationary expectations and hampered the growth of output and employment.

In an article published in 1980, a Kennedy economic adviser made some observations that seem appropriate not only for concluding this section but also for introducing the next. He suggested "two interpretations of U.S. inflationary history since 1965" that lead in different policy directions:

> One blames mistaken demand-management policies—they aimed at overfull employment, accommodated too readily existing inflation and inflationary shocks, intervened too promptly and

20. The so-called "McCracken Report," to which reference was made in a work cited in footnote 3.

> energetically to arrest recessions and speed recoveries. According to this thesis, correct policies can bring price stability plus realistically full employment.
>
> The other interpretation depends on the view that the price- and wage-setting institutions of the economy have an inflationary bias. Consequently, demand management cannot stabilize the price trend without chronic sacrifice of output and employment unless it is assisted, occasionally or permanently, by direct incomes policies of some kind. According to this second thesis, there is little hope that monetary and fiscal disinflation alone will cure the current stagflation.[21]

While conceding "important elements of truth" in the first interpretation of developments since 1965, he finds it "very difficult to reject the hypothesis of structural inflationary bias."[22]

"Redeem the Dream"

The threat posed by unchecked inflation to the efficiency of our economy and to the viability of our political system and society has stimulated considerable thought and writing on remedies. The prescribed regimens for draining the inflationary fever vary in emphasis, details, and feasibility; in time requirements; in the kind, extent, and socioeconomic distribution of the sacrifices still demanded and in their prospects of success. As might be expected, some plans solve by assumption various subproblems that other plans consider to be critical. It is also true that, in general, and for lack of knowledge rather than lack of concern, the goal of full

21. James Tobin, "Stabilization Policy Ten Years After," *Brookings Papers on Economic Policy,* 1:1980, p. 64.

22. *Ibid.,* p. 65.

employment is temporarily subordinated or ignored in belief that disinflation is the prerequisite to the possible attainment. Explicitly or implicitly, furthermore, the Humphrey-Hawkins interpretation of the paramountcy of the employment goal, even in current circumstances, is rejected or unaddressed. On the other hand, proposals for disinflation tend to minimize or overlook the possible need to deal with concomitant increases in the incidence and severity of unemployment. A sampling of the views expressed in the very recent literature follows.

In a 1980 essay, the Nixon economic adviser cited in the preceding section reviewed four strategies and expressed his strong preference for the fourth, which he calls "committed gradualism." The other three involve: improbable and risky "shock treatment," an attempt to enforce zero inflation or something like it by sudden and drastic reduction of the growth rate of the money supply or of nominal (i.e., current-dollar) Gross National Product; restoration of some sort of linkage of the money supply to gold; and adoption of a constitutional amendment imposing restraints on fiscal and monetary management. The one-time Nixon adviser observes that, in our country, "gradualism" (an intent to disinflate over a period of uncertain duration in which unemployment would remain a bit above the "natural rate") has "lost credibility" only because it has not been pursued "with the necessary persistence." The trick is to substitute "committed gradualism"—a five-year program of determined fiscal and monetary actions, undertaken with strong presidential leadership, bipartisan congressional support, and cooperation of the Federal Reserve, that could, if carried out without digression or dilution, lead to an annual rate of price increase that is below 2 percent and to an annual rate of increase in the nominal Gross National Product that is, say, 4 percent. Changes would be required in budgetary procedures, but the program would eschew any explicit effort to

restrain prices or wages or to meet a predesignated unemployment target rate. The former Nixon aide concedes that the opportunities for abandonment of "commitment" and for reversion to "short-run politics as usual" cannot be ruled out.[23]

In the same 1980 testimony that was cited in the preceding section, a former Federal Reserve chairman likewise expresses impatience with the familiar "gradualism," which calls for "mild measures over a period of five to ten years" but is vulnerable to "premature suspension or abandonment in practice." For "real headway," it is "essential to rout inflationary psychology," toward which end he proposes four kinds of action. The first is to revise the budget process so that Congress takes more responsibility for the legislation of deficits. (It should now consider cutting federal expenditures, especially by weakening the role of "indexing" in Social Security and other entitlements.) The second is to attenuate the cost-increasing effects of regulation. (He refers to the Davis-Bacon Act and laws concerning environment, health, and safety.) The third is congressional endorsement, by concurrent resolution, of Federal Reserve efforts to combat inflation by monetary means. The fourth is reduction of business taxes over a five- to seven-year period (small in the first two) to stimulate capital expansion and productivity growth.[24]

Kindred proposals were made in a paper issued by a distinguished Committee to Fight Inflation in June 1980. They include a curb on deficit-proneness of the Congress, support of the Federal Reserve's counterinflationary disposition, inhibition of government tendencies to raise prices by interference with the competitive process and by subjection of industry to excessive or overzealous regulation, tax relief

23. Stein, "Achieving Credibility," *loc. cit.*, pp. 68-73.

24. Burns, *The Perils of Inflation*, pp. 9-10.

for business, other measures to raise productivity (e.g., increase in outlays for research and development and establishment of intracompany productivity councils), and encouragement of domestic energy production and conservation by rapid decontrol of oil prices and addition of consumption taxes.[25]

The same Committee to Fight Inflation was encouraged by the Reagan election to issue another policy statement in December 1980.[26] In view of "significant changes . . . in the political and social environment," it proposed a nine-point program that contemplated:

1. Reduction of projected federal expenditures for fiscal year 1981 (including off-budget outlays) by at least 2 percent.

2. Stimulation of "productivity-enhancing" capital investment through reduction of business taxes for calendar year 1981 and through additional tax and expenditure cuts for fiscal year 1982.

3. Requirement of budget balance beginning with fiscal year 1983 unless a deficit is authorized by a majority in each house of Congress.

4. Establishment of a commission to explore ways to reduce the cost increase of entitlement programs.

5. Support of monetary policies that would constrain growth of the money supply over the next three or four years to rates "consistent with a stable consumer price level."

6. Adoption of youth differential in the minimum wage and rescission or amendment of the Davis-Bacon Act.

25. *A Policy Statement,* Committee to Fight Inflation, Washington, June 23, 1980. (Available from American Enterprise Institute for Public Policy Research.)

26. *Second Policy Statement,* Committee to Fight Inflation, Washington, December 24, 1980. (Also available from American Enterprise Institute.)

7. Revision of environmental, health, and safety regulations to ensure achievement of "basic national objectives . . . at minimum feasible cost."

8. Promotion of labor-management cooperation at the company level on behalf of productivity improvement.

9. Early decontrol of prices of oil and natural gas in the interest of increasing domestic energy production.

A prescription offered in 1980 by a venerable Nobel economist residing in Britain unintentionally illuminates two of the dangerous social challenges that would confront nations desirous of quickly descending from an inflationary orbit to the preferred ground of stable prices. One major challenge would arise from intense unemployment during an indefinitely "short" period of, say, a half year. The second involves exacerbation of intergenerational conflict, not only over the distribution of burdens and benefits but also over the tolerable length of the adjustment period. The renowned economist favors drastic monetary and fiscal measures to halt inflation in its tracks. He opposes gradualism as ineffectual, especially in the presence of strong unions. At least for Britain, he regards an unemployment rate of 20 percent for six months as politically more feasible than a rate of 10 percent extending over three years. He would not heed complaints about high interest rates and would welcome bankruptcies that weed out weak managements and inefficient firms. He is against government intervention to help channel investment funds into ailing basic industries, such as automobiles and steel. Cautious about the claim of "supply-side" economics that a large marginal tax cut would induce substantial revenue increase, he is "afraid it may lead to large budget deficits and more inflation." [27]

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27. From interviews with Friedrich von Hayek reported in *Business Week,* December 15, 1980, p. 110, and *Wall Street Journal,* December 16, 1980.

A controversial line of attack on "rational expectations" of continuing brisk inflation rates acquired prominence during the 1980 presidential campaign. The centerpiece of this program would be a three-year series of substantial reductions in federal tax rates. These cuts would be accompanied by sharp curtailment of nondefense expenditures, encouragement of business outlays to increase capital investment and revive productivity, and alleviation of the burden of regulation on industry. The scenario also envisages a congenial monetary policy. The program is supposed to reduce the interest rates demanded by lenders and to raise dramatically the propensity to save. Many economists fear that attempts to carry out the program will actually aggravate the inflation. In any case, a transition period of dislocation and unemployment cannot be skipped before "normalcy" is restored.[28]

The program just described is rooted in "supply-side" economics, which has an appealing optimistic cast. Thus, even before the election month in 1980, the majority and minority members of the Joint Economic Committee were able to issue a unified annual report emphasizing "supply-side" measures rather than continuing efforts at demand management. They envisaged a coordinated attack on inflation and unemployment by adoption of a pro-growth package of "consistent and mutually reinforcing" policies. Thus, inflation would be fought by gradual and sustained slowdown in the expansion of the money supply and by gradual reduction of the federal share of the Gross National

28. "Reagan's Top Problem: Braking Inflation Expectations," *Business Week,* December 1, 1980, pp. 104-10.

It appears from a new Louis Harris poll that "a clear 55-to-41 percent majority of Americans opposes any cut in the federal income tax"—"despite the high priority that the incoming administration of Ronald Reagan has given to a 10 percent federal tax cut." The public's reluctance reflects belief that "such a cut would be inflationary." On the other hand, the same poll shows a 63-to-29 percent majority in favor of tax incentives for business investment. (Reported in *Washington Post,* December 1, 1980.)

Product. General unemployment would be fought by stimulation of economic growth through tax reductions that offer incentives to invest, save, work, and produce. Structural unemployment would be fought by realistic on-the-job training in the private sector.[29]

In May 1980, a tax expert who is a strong advocate of "supply-side" economics told the Joint Economic Committee that incentives could be used skillfully to combat both unemployment and inflation—as the Committee had already decided in its review of the President's *Economic Report.* He would shift the focus of attention in policy from aggregates to the marginal decisions of individuals, households, and firms in response to changes in relative prices. More specifically, he denied the validity of the Phillips curve and the Keynesian multiplier as policy tools and counseled tight money and significant tax cuts to induce behavioral changes in behalf of greater price stability and fuller employment.[30]

Testifying on a presidential anti-inflation message in March 1980, the current Federal Reserve chairman not only showed disfavor of overreliance on monetary *macho* but also balked at the idea of early tax cuts, even for the stimulation of business investment. The times required a "coordinated" credible approach to inflation control that included fiscal restraint (preferably, an attempt to balance the 1981 budget) and energy policy as well as a tight rein on the money supply.[31]

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29. Based on summary remarks by Representative C.J. Brown, *The 1980 Joint Economic Report,* p. 5.

30. See testimony of N.B. Ture at a *Hearing Before the Joint Economic Committee on Forecasting the Supply Side of the Economy,* May 21, 1980, pp. 61-74.

31. P.A. Volcker, in *Hearings Before the Joint Economic Committee on the President's New Anti-inflation Program,* March 17, 20, and 27, 1980, pp. 102 ff; and *Washington Post,* December 4, 1980.

A Wall Street economist whose pronouncements are highly respected in the investment community has, like the Federal Reserve chairman, expressed skepticism concerning the economic scenario that has strong support in the new Reagan Administration. In his judgment, the intent to cut taxes sharply while also raising defense spending sharply will keep interest rates high and fail to puncture the inflationary expectations of investors and workers. Continuing rises in energy and food prices, he observed, hold forth the prospect of continuing pro-inflationary wage advances.[32]

In October 1979, the Federal Reserve was thought to have embarked on a more extreme "monetarist" course as it shifted emphasis toward restriction of the growth of the money supply with less regard for the stability of interest rates. The stage for this shift had been set by the failure of government to achieve occasional budget balances or surpluses in recent times. The shift is also consonant with legislative requirements of 1975 (House Concurrent Resolution No. 133) and 1978 (Humphrey-Hawkins Act, Section 108) that quarterly and annual target rates of money growth be publicly declared. Attainment of the near-term targets, however, has proved difficult. Professional opinion is far from unanimous on the most relevant money aggregate, the sensitivity of output and prices to change in this aggregate, the lead times, and the preferred strategy of restraint (gradualism versus shock). Other factors also suggest that a clearcut test of the efficacy of "monetarism" is not at hand—the Federal Reserve's position as stated above, its conflicting requirements to manage the money supply and to accommodate the Treasury in deficit-financing, popular and political concern for business solvency and jobs, and the

32. Henry Kaufman, in *Washington Post,* December 10, 1980.

unhappy experience of Britain in its current wrestling with "slumpflation." [33]

The best-known advocate of monetary monism—the 1976 Nobel laureate in economics—has stated his credo on "the cure for inflation" in a chapter of this title in a new popular book.[34] He asserts "five simple truths" by way of conclusion: that "inflation is a monetary phenomenon arising from a more rapid increase in the quantity of money than in output"; that government essentially controls the money supply; that the "only cure for inflation" is to slow the growth of this supply; that time is required for cure even as it was required for development of inflation; and that "unpleasant side effects" of the cure, such as substantial unemployment, are "unavoidable." A choice between unemployment and inflation, in his view, is an "illusion": "The real option is only whether we have higher unemployment as a result of higher inflation or as a temporary side effect of curing inflation."

A leading econometrician associated with the Brookings Institution reported in a 1980 paper that his "model" attributes the recent "dismal record of the 'discomfort index' " to "exogenous shocks and a large upward shift in the inflation norm." To slow this shift, he suggests six possibilities. The first is to maintain high unemployment, and the second, which entails the first, is to keep fiscal and monetary policy "tight." The third is to announce and

33. On this paragraph, see Volcker's testimony (footnote 31); J.A. Davenport, "A Testing Time for Monetarism," *Fortune,* October 6, 1980, pp. 42-48; two articles in Burns' *Reflections,* "Money Targets and Credit Allocation," pp. 367-78, and "The Independence of the Federal Reserve System," pp. 379-85; "The Redefined Monetary Aggregates," *Federal Reserve Bulletin,* February 1980, pp. 97-114; Milton Friedman, "Inflation and Unemployment," cited in footnote 3; T.M. Humphrey, "The Persistence of Inflation," *Economic Review,* Federal Reserve Bank of Richmond, September-October 1979, pp. 3-15; and *The Economist,* November 29, 1980, pp. 11-13 and 19-23.

34. Milton and Rose Friedman, *Free to Choose: A Personal Statement,* New York: Harcourt Brace Jovanovich, 1980, pp. 237-270.

adhere to a "credible restrictive policy," and the fourth is to "reduce prices relative to wages without squeezing normal margins"; the intent of both would be to moderate inflationary expectations. The fifth is to offer tax incentives for wage and price moderation, and the sixth is to impose direct restraints, ranging from guidelines to strict controls. A preference is expressed for use of a workable tax-based incomes policy to complement slack-inducing macroeconomic policy.[35]

Many other economists see a supportive role for penalty or reward systems, or even for stricter controls, in larger programs aimed at disinflation. The purpose is to alleviate the unemployment that would be induced by demand-restraining measures. Despite much discussion of incomes policies in the past decade or longer, there is little agreement on appropriate design and administration; some of the varieties appear to have been influenced in their details by emanations from the ghosts of Lewis Carroll and Rube Goldberg.[36] In 1978, the Carter Administration proposed "real-wage insurance" as an inducement to unions to honor the pay target set in the new stabilization program.[37] Despite the cogency of the concept, the scheme was poorly crafted and poorly promoted; by protecting inflaters, it would have legitimized an "underlying" inflation rate already intolerably high and requiring reversal, not reinforcement.

The writings thus far sampled seem hopeful, though guarded; but some others, even when compatible with opin-

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35. Perry, "Inflation in Theory and Practice," *loc. cit.*, pp. 239-41.

36. Various tax-based incomes policies are discussed in essays by L.S. Seidman, A.P. Lerner, and L.L. Dildine and E.M. Sunley in the Brookings volume already cited, *Curing Chronic Inflation;* in Sidney Weintraub, *Keynes and the Monetarists,* New Brunswick, Rutgers University Press, 1973; and in papers by A.P. Lerner and Sidney Weintraub in J.H. Gapinski and C.E. Rockwood, eds., *Essays in Post-Keynesian Inflation,* Cambridge, Ballinger, 1979.

37. *Economic Report of the President,* January 1979, pp.9 and 82-84.

ions already cited above, sound less reassuring. For example, a Princeton professor told the Joint Economic Committee in May 1980 that we need "patience," a quality "sadly lacking in past economic policy." In any case, it appears that "we must face up to the fact that an inflation problem that has been building for 15 years may take just as long to be cured." He proposed a "long-term policy" of "moderate slack, coupled with whatever 'supply side' initiatives we can dream up to improve productivity growth"—the "only anti-inflation medicine that is not pure snake oil."[38]

A well-known monetary economist, contributing to a volume published in 1979, ventured that his profession "does not have much to say about how to extricate oneself without great difficulty from an inflationary process," so he would be "very happy" if his fellow-contributors "could reach a consensus, not perhaps on how to eliminate inflation completely, but at least on how we can lessen the rate of inflation." Having had "the sad experience of seeing many different efforts at combating inflation fail," he is skeptical of "any simple scheme." He does suggest, however, that an anti-inflation program has to be a "combined and determined effort carried out along many different fronts." A curb on government spending is necessary, "but this action must be combined with wage policy and with other policies which at least will provide a period of adjustment during which people can be led to change their expectations about future inflation."[39]

Writing in 1979, a distinguished economist who has been president of the American Association for the Advancement of Science as well as the American Economic Association came to "a rather pessimistic conclusion that the prospects

38. A.S. Blinder, in *Hearings before the Joint Economic Committee, Congress of the United States,* May 28 and 29, 1980, p. 40.

39. Don Patinkin, "The Inflationary Experience: Some Lessons from Israel," in *Essays in Post-Keynesian Economics,* pp. 133-34.

for control of inflation are not very good." Although he thinks that "a full-employment, anti-inflation policy is feasible," he hastens to add that it demands "more knowledge than we now have, a somewhat different data base, and a very different political image and will." In particular, his policy would involve drastic federal intervention "in existing financial contracts." Since "politically we are simply not prepared to do this," he expects the inflation to continue.[40]

Finally, a post-Keynesian school of economists that seeks to replace inadequate "orthodox" theory offers an uncommon diagnosis of inflation and arrives at an uncommon proposal for remedy. According to this school, inflation arises not from excess demand or too rapid growth of the money supply but from conflict over the distribution of available income and output. Restrictive monetary and fiscal policies limit the available totals and thereby intensify the struggle for shares. An incomes policy, which is nowadays proposed as a means of mitigating the unemployment accompanying restrictive anti-inflationary measures, is seen instead by the new school as the proper fruit of a prior national consensus covering all categories of claimants. This consensus, established by a social and economic planning organ in which all interest groups are represented, "would finally permit government to pursue a maximum growth or 'full employment' policy without having to fear the inflationary consequences."[41] It is safe to surmise that this paragraph will not influence the approach taken by the new Administration and the new Congress in the quest for fuller employment with less inflation.

40. K.E. Boulding, "Inflation as a Process in Human Learning," in *Essays in Post-Keynesian Economics*, especially p. 30.

41. Eichner, "A Look Ahead," in *A Guide to Post-Keynesian Economics*, pp. 174-84. See also, in the same volume, Eileen Appelbaum, "The Labor Market," pp. 117-19.

New Era—or Error?

The dramatic shift of political power signaled by the 1980 elections provides a basis for hope of more resolute and more effective leadership against inflation. A successful early outcome should not be taken for granted, however, in view of the dreary economic history of the decades since the end of World War II; the origins, later sources, and long life of the current inflation; and the diversity of authoritative opinion regarding appropriate strategy and tactics. Furthermore, even if the struggle against inflation were eventually to succeed, any predesigned program of disinflation would most likely have to be revised extensively along the way. The original timetable, too, would probably prove overoptimistic. Accordingly, whatever the exact nature of the disinflation program that will be formulated initially by the new Administration, the remarks that follow should retain some relevance for evolving government policy. It should be recalled, for the sake of perspective, that the current fashionable revulsion against Keynesianism was preceded by a fashionable bipartisan tolerance; that the Nixon Administration adopted wage and price controls despite professions of ideological abhorrence of such intervention.

Of special interest for this book is the near certainty that a determined attack on inflation would entail a concomitant substantial rise in the general level of unemployment. Such a rise is suggested by the inevitability of a central role for monetary restraint. Furthermore, workers in particular industries, regions, and localities may be expected to experience prolonged idleness as a result of fiscal retrenchments, the unwillingness or inability of state and local governments to fill gaps in federal outlays, the limited geographic and interfirm mobility of older disemployed persons, and so forth. Although stimulative tax changes and new defense spending could favorably affect some area

economies and assist some industries damaged in fierce international competition (e.g., automobiles and steel), they could hardly arrest the worldwide shift in manufacturing activity, reverse the decline of major central cities, or reduce decisively the high rates of joblessness for young persons.

Assignment of top priority to the mastery of inflation need not, of course, imply repudiation of the earlier federal resolve to promote "maximum employment." All the objectives stated in Section 2 of the Employment Act, as amended in the Humphrey-Hawkins Act, remain appropriate, whatever party is in the ascendant. While the objectives remain fixed, the weights assigned to the various desiderata are alterable in the light of changing economic conditions and perceptions. As for the specific milestones of the Humphrey-Hawkins Act, precedent for benign neglect has existed from the very beginning. Continued neglect would be much less provocative than a gratuitous alternative course that has recently been proposed: "repeal" of the Act *in toto* or, at least, of the "unrealistic" prescription of a 4 percent goal for unemployment.[42]

Only an economic flatworm would be satisfied to view the processes of inflation and disinflation simply in terms of rates of change in prices, output, and the money supply. Government leaders unfortunately have to recognize and take due account of the social and political dimensions of the two phenomena. The conduct of a serious disinflation program is bound to expose and sharpen the intergroup differences, tensions, rivalries, and conflicts that contributed to the buildup of inflation in the first place.[43] In particular, stern counterinflationary action could sufficiently aggravate

42. Stein, "Achieving Credibility," *loc. cit.*, p. 73.

43. For sophisticated discussions of the noneconomic aspects of inflation, see the essays in Fred Hirsch and J.H. Goldthorpe, eds., *The Political Economy of Inflation*, Cambridge: Harvard University Press, 1978.

unemployment to the point of threatening national cohesiveness and public order.

The latent danger to social and political stability counsels the desirability of offering incentives that would shorten the disinflation process and reduce its human pain. Specifically, a disinflation package might well provide, through tax credits or low-interest bonds redeemable at public convenience, for protection of the purchasing power of the earnings of wage and salary workers who agree to forgo pay increases in excess of the prospective national rate of productivity advance. The offer of protection to such workers would have the double merit of increasing the ratio of noninflaters to witting or unwitting inflaters and of discouraging the "pre-indexation" of unit labor cost that prolongs upward pressure on prices into the future.

Four additional comments elucidate this proposal for constructive enlistment of employees in the fight against inflation:

1. The proposal is not just another member of the motley family of "incomes policies" that political leaders disenchanted with "controls" are inclined to eschew categorically. It does not require enforcement by company managements acting as gendarmes or deputies for the state. Indeed, it is consistent with the notion of economic freedom that the new Administration wishes to enlarge. By appealing to selfish interest, it seeks to motivate voluntary behavior for the larger public good.

2. As a "supply-side" instrument, the proposal promises far less ambiguous counterinflationary benefit than does, say, a preset multiyear reduction in marginal tax rates for all income earners.

3. The proposal should not be confused with the Carter concept of "real wage insurance" that it might have in-

spired. The latter was intended to protect workers getting pay increases up to 7 percent—far above the expected national rate of productivity advance. This idea could only have made the inflationary result of the annual union game of "catch-up chicken" easier to forecast; it was not aimed at ending the game.

4. The same criterion of purchasing-power protection is appropriate for workers in both the private and public sectors. (In earlier years of the current inflation, the federal government missed an opportunity, as the nation's largest and most concerned employer, to set an example for others to follow by restricting its pay increases to the national rate of productivity gain. Adjustment of federal pay instead for so-called "comparability" with the private sector was never technically sound and has served as a mechanism for propagation of "wage inflation.")

Finally, the notion just elaborated for encouragement of voluntary wage restraint is also adaptable to other disinflationary programs—for example, the stimulation of net new personal saving. Thus, instead of hoping that a sizable multiyear income tax cut would significantly increase net savings, the federal government could provide a direct incentive in the form of a tax credit.

In the course of preparation of this introductory chapter to a new edition of a work that began to take shape in the very dawn of the New Ordeal, a passage in a poem by the eminent Victorian, Matthew Arnold, often came to mind:

> We do not what we ought;
> What we ought not, we do;
> And lean upon the thought
> That Chance will bring us through.

May our nation's quest for fuller employment with less inflation during the next decade and a half warrant a more positive retrospective assessment.