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You are not required to make a speech at today's luncheon and they may prefer that you do not, but here is a draft if you want to say something.

I've given the copies to Bill for Elston and Graw if you decide to speak.

I've got an 11-12 dentist appointment. - I'll call in at 12 to see if I come back to the office or meet you at the Willard.

Max

File
Speech on Economic
Stabilization.

I have been advised on a number of occasions that my role this noon is to be one of chairman to introduce with flattering comments the illustrious speakers on the platform. It is, however -- as I am sure even Jim Loeb and the sponsors of this affair will appreciate after a moment's sober contemplation -- too much to expect. Here before me is a splendid audience and a large one, and the microphone comes within the reach of my voice. Furthermore, I have something to say about the subject and want to take this occasion to do so.

REMARKS OF SENATOR HUBERT H. HUMPHREY

ANTI-INFLATION CONFERENCE
AMERICANS FOR DEMOCRATIC ACTION
Willard Hotel
Washington, D.C.

May 18, 1951
P.M.

I want to make it clear at the outset that I speak to you today not as an economist. I speak, rather, as a United States Senator with my ear to the ground. I do not, therefore, speak as a technical expert but I do speak with the confidence and knowledge that last July and August soon after Korea, when the professional economists were informing the American people that indirect credit controls would be sufficient to meet the threat of inflation, I urged, and I again urge today, the inadequacy of indirect credit controls and the necessity to impose a full-scale anti-inflation program of effective price control, wage control, and a comprehensive and equitable tax program. I therefore feel more comfortable in my

Page two

views today than I have in the past.

Our beautiful and talented keynote speaker this morning set the theme for the conference. If I may be allowed to set forth a variation on that theme, I would say that the purpose of our conference is to "Save the Dollar".

I would like to use this opportunity to sketch briefly what I consider to be an adequate program for saving the dollar. First, there is no question but that we need direct controls on wages and prices. These controls have to be vigorously and intelligently enforced so that true equality of sacrifice becomes the order of the day in this emergency period.

It is clear to me, too, that we can't have one without the other. We can't have price control without wage control and we can't have wage control without price control.

The interdependence of wage and price control is an economic fact and a political fact. We will not be able to enforce wage

Page Three

controls for any length of time if the wage earner finds, as he is finding now, that his wage dollar continues to buy less and less. By the same token, the businessman and farmer will kick over the traces if some of their costs are not stabilized.

It also becomes increasingly clear that no matter how well price and wage controls are enforced that fact alone will not solve the problem of inflation.

Price and wage controls are just a part of the total picture. They are controls which we use to prevent prices and wages from going up, once the ultimate consumer has the money in his hands to bid them up.

The crucial problem, it seems to me, is to do something about the consumer -- and that means businessmen and corporate consumers as well -- from having a surplus of money and credit to bid up prices in the first place.

There are no easy answers. We have to draw, and, in fact, we have drawn, upon a variety of techniques to ease the pressure of

Page four

an expanding volume of money against a constantly decreasing supply of civilian goods.

Most of the basic ingredients of this kind of program you are familiar with, I am sure. First of all, we have to have an adequate tax program. Our present tax program is not adequate for the emergency period. Furthermore, some weeks ago I presented to my colleagues in the Senate a program for closing the tax loopholes which, at a very minimum, would raise nearly \$7 billion. We can do much more with the corporation and excess profits taxes than we have done up to date. We can raise more money through these means and, at the same time, make these taxes less regressive so that the test of ability to pay is adequately reflected in our tax structure.

I am completely out of sympathy with across-the-board percentage increases for the corporation tax and individual income taxes. There are smaller corporate enterprises struggling to survive which we ought not to discourage by a lopsided tax program.

Page five

There are larger corporate enterprises which can reasonably afford a greater increase in their taxes than they are now paying and more, certainly, than is contemplated.

Another ingredient recognized, in principle, is the idea of credit restriction. We have to make it more difficult for individuals and corporations to borrow except as that borrowing serves a social policy in line with the goals of our mobilization program. We have done this to some extent -- we can do more in the way of tightening up credit facilities.

We ought to be able to do something too by way of preserving incentives for businessmen to reduce costs and not have it taken away by contract renegotiations or settlement. This can only be done if we have some objective measures of plant efficiency as a basis for determining incentives for efficient management. This will not only serve as a solid bulwark against inflation, it will also cut the costs of defense production.

Page six

I feel, however, that one aspect of this problem has not received sufficient attention. This aspect can be labeled variously: compulsory savings, deferred spending, etc.

What I am after is some way of inducing people not to spend and at the same time not blunting their incentives to work.

If we are very candid with ourselves, we must recognize that wage control is a rather dull instrument either to get at inflation or to get people to do the kind of work which we need in our defense program.

The inflationary pressure comes not alone from wage rates but from wages in general. Wage increases in a defense period are only in part (in fact, a very minor part) derived from increases in wage rates. Much more important are the wage increases attributable to overtime premium pay, reallocation of labor forces from relatively smaller-paying civilian jobs to relatively higher-paying defense jobs.

Yet, if we attempt to curb the non-wage-rate increase, we will find that we won't be able to get the people to man the jobs

Page seven

that are essential for the defense effort.

After all, we do not live in a totalitarian system. In our kind of private enterprise economy, wages constitute the major inducement for getting people to shift jobs or getting workers to increase output. So if, in the name of curbing inflation, we try to freeze all wage increases we may curb inflation but we are more certain not to get people to produce as efficiently as we want them to.

I am suggesting, therefore, that if we want to preserve the incentive to work we incorporate in our fiscal policy some sort of program which will act as a genuine anti-inflationary device and at the same time not dull work incentives.

I think there is pretty strong evidence that workers will feel better about what is, in effect, a deferred wage increase than they will if we say to them, "Work harder but, we're very sorry, we can't do anything at all about wage increases".

Page eight

American working men and women would be perfectly willing, in my judgment, to accept such a program of deferred premium wage payments if they knew that other forms of premium payments, including bonuses and dividends, were likewise to be deferred as part of an overall anti-inflation program.

I am not prepared to prescribe in detail the content of a comprehensive savings program but it occurs to me that it can be done in one or more of these ways:

(1) We can pay a large part of wage and dividend increases in government bonds redeemable over a period of years.

(2) We can double social security payments, particularly old age and survivors' insurance, and at the same time provide for doubled social security benefits.

(3) As a matter of law, we can say with some scientific precision that people with a given gross income and a given number of dependents will have to save a given number of dollars -- perhaps in

Page nine

the form of annuity bonds with staggered maturity dates.

(4) We can give tax credits to people who save in one form or other or we can establish a form of spendings tax.

I hold no special brief for any of these specific proposals. I think the details can be worked out by the experts.

I do hold a brief for the principle. We may very well reach a stage in which a complete pay-as-we-go tax program will be unfeasible. Anticipating that situation, it seems to me we ought to take advantage of one good old American principle -- the idea of saving for a rainy day. I think it can be argued successfully that in this way we will really do something about the inflation by draining off excess purchasing power -- and at the same time we will not be diluting incentives.

I think we can line up public support for this sort of program on the theory that the choice before the large masses of American people is not between spending the money now or spending it

Page ten

later, but that the real alternative is between dissipating the value of the dollar through price increases or saving the dollar and having it to spend later.

We have an opportunity for a wonderful job in economic education.

As the defense program attains full momentum, this much will become clearer in a way that is not apparently clear now! Emergency mobilization is not a pleasant job. There is no way of shaking up the ingredients so that nobody gets hurt. The need of the hour is bold, creative leadership to the end that nobody escapes sacrifice and that fair shares for all becomes the only tenable principle for a democracy in this critical period.



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