THE AMERICAN DISTRIBUTION AND INFLATION PROBLEMS

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"In any contest between lunatics and paralytics, the lunatics always win." F. L. Schuman.

I. *Redistributionism in America*

Americans are supposed to have little or no direct interest in problems of income distribution or redistribution as such. In the mid-thirties Senator Huey Long organized a proto-Fascist movement around the slogans of "Share the Wealth" and "Every Man a King," but only in the poorest section of the country in the middle of the Great Depression. The same slogans would do nothing even for Huey Long today; the man in the street cares nothing about them. He cares even less about such statistical niceties as the "labor share of the national income," the "coefficient of concentration," or the alleged "income revolution"[1] which has accompanied the so-called "people's capitalism." Ideas of income distribution and redistribution are not ideas to man the barricades—not in America, with the highest living standards in the world, and with unemployed living better than fulltime workers in most other countries.

All this is true, and yet—Every worker almost without exception wants to live closer to his boss' level. He will not be satisfied until he does live closer to his boss' level. He does not care how much better he lives than foreign workers whom he has never seen. Unless the proportion of workers to bosses falls rapidly —as it shows no signs of doing—the satisfaction of this desire requires more income redistribution than is apparent at first glance.

Some elementary arithmetic can illustrate this point. Suppose society to be made up of 60 million "workers" (including farmers) whose income is derived predominantly from labor, and 10 million "capitalists" whose income is derived predominantly from property. Suppose average annual labor income to be $5,000 and average annual property income $ 10,000. We then have in the aggregate:

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[1] The present writer is among those who would discount this "income revolution"—a sharply decreased relative share of the top few per cent of income receivers—as a statistical mirage. It results from a number of extraneous factors, of which five are probably most important: Corporate shifts away from dividend payments (which enter personal income) to direct internal financing (which does not), rising corporate income taxes, greater employment of married women, decreasing family size among the poor, and government price supports to farmers. For a fuller account, see R. J. Lampman, *American Economic Review*, June 1954.

Total Labor	Income :	$300 billion
〃 Property	〃 :	$100 〃
〃 Personal	〃 :	$400 billion
Labor Share:		75 per cent

(These figures are not far removed from the actual state of things in the United States.)

Now suppose the average worker to demand successfully, not the abstraction of "income redistribution" but the channelling of the benefits of growth into labor hands, whether by collective bargaining or direct legislation makes no difference. Suppose that as a result average labor income rises from one-half to two-thirds of average property income. Then, keeping the proportions between the two classes unchanged for present purposes, we might have in some future year 75 million workers at an average income of $8,000 and 12.5 million capitalists at an average income of $12,000. The basic aggregates would then be:

Total Labor	Income :	$600 billion
〃 Property	〃 :	$150 〃
〃 Personal	〃 :	$750 billion
Labor Share:		80 per cent

Some such "biased economic growth" as this appears to embody the desires of workers and their leaders considerably more than any confiscation of capital or dispossession of capitalists here and now. It is advocated from time to time by liberal economists as a palliative for group and class conflict. It is however opposed bitterly by capitalists as subversive of the profit system—almost as bitterly, it sometimes appears, as confiscation itself. The underlying explanation of both worker and capitalist attitudes seems to be that in a materialist society social status requires income and wealth as a necessary condition. (Our critics suggest that income and wealth may be a sufficient condition as well.) The status and therefore the self-esteem of the worker requires some closing of the gap that separates his income and wealth from that of his boss. The status and therefore the self-esteem of the boss requires that he maintain or even widen it.

We are basing our discussion of distribution entirely on the functional distribution between labor and property income, although most equalitarian concern is with the personal distribution of income by size. This is done because the functional distribution is easier to handle and also because, so long as total real income does not decline, any increase in the laobr share is associated with a decrease in the inequality of the personal income distribution, and vice versa. At the same time we ignore quite intentionally that aspect of the currently fashionable doctrine of "people's capitalism"[2] which suggests that a worker may become

[2] This current doctrine represents little more than the resurrection of the views of Thomas Nixon Carver of Harvard University during the stock-market boom of the 1920's—usually without credit to Professor Carver. Carver, *The Present Economic Revolution in the United States* (Boston: Little Brown, 1925). For a criticism of the current revival of "Carverism," see Victor Perlo, *American Economic Review*, June 1958.

a capitalist by the purchase of shares of stock which yield an income of perhaps five per cent of his wages.

II. *Digression on Welfare Economics*

It will sharpen the argument to compare the preferences of our representative American voter with these of the classless "economic man" assumed in conventional welfare economics. This appears to involve a certain amount of diagrammatic analysis (Figures I and II).

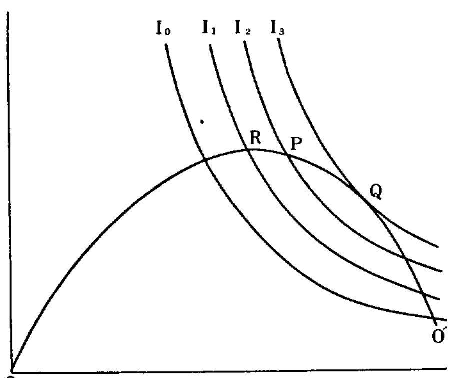

Fig. I

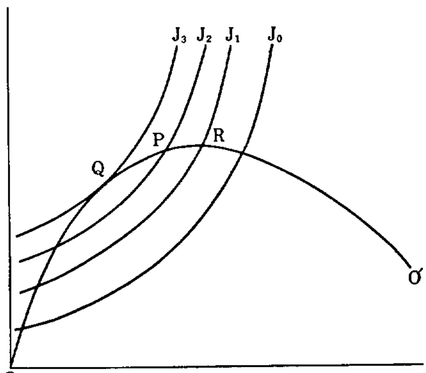

Fig. II

On these diagrams the horizontal axis represents the ratio of average labor income to average property income. It may be taken as an index of income equality under capitalistic conditions. The further one goes to the right, or East, the more equal is the distribution. The vertical axis represents the average real income of society as a whole.

On Figure I, which may be thought of as representing a capitalist viewpoint, a conventionally-shaped family of "community indifference curves", $I_0, \ldots, I_3$ connects points between which the representative voter is indifferent. Any point on I_3 is however preferred to any point on I_2, and so on. The shape of the curves implies that, especially at high income levels, the voter will accept a considerable cut in real income in the interests of greater equality. On the same diagram, the line 00′, with its maximum at R, gives the range of possibilities open to the society in question. When relative labor income is too low (to the left, or West, of R) average income is held back by a lack of purchasing power. When relative labor income is too high (to the right, or East, of R) average income is depressed by inadequate inducement to invest and thus by inadequate capital supply.

Certain elements of unorthodoxy have already been smuggled into this diagram; the reader should be warned before risking further contamination. The use of community indifference curves is not strictly justifiable unless all the individuals of the community have identical tastes and preferences. It is by no means an established proposition, particularly among capitalists, that income can be held back by a lack of purchasing power. Most important, conventional welfare economics, which is intent on maximum output under the most efficient allocation of resources and is relatively unconcerned with problems of distribution, would draw the indifference curves I_0, ..., I_3 as horizontal lines, one above the other.

Suppose for the moment that our present position is P on Figure I. This lies on indifference curve I_2 ,to the right of R, expressing a common capitalist view that America is already sacrificing output to equalitarianism. We inquire: in which direction should be move along the line 00′ in the interest of economic welfare? The orthodox answer of the orthodox welfare economist would be—to the Northwest, toward R, toward optimum allocation of resources and maximum real income. But this involves a sacrifice of income equality, probably in the interest of capital formation. It involves more sacrifice, in fact, than the voters are willing to accept, as may be seen from the position of point R on indifference curve I_1, below I_2. The politically expedient move from P along 00′ would be the Southeast, toward Q which lies on the highest attainable indifference curve I_3. True, this means lower output—presumably subsidizing resources which are held idle or in the "wrong" uses, or discouraging capital formation, or something of the sort. But on the other hand it increases equality[3] without too great a burden on living standards—which seems to be what people want.

This picture of mass public opinion blocking economic wisdom by its voting power is anathema to spokesmen for organized labor and agriculture, to the New Deal wing of the Democratic Party, and to other elements further Left. Thier own view can be represented by Figure II, with the same axes as Figure I. The major difference is that on Figure II it is the capitalists' preference for monopoly profits, expressed in their indifference curves J_0, ..., J_3 which are holding production below the level R, blocking redistribution which would raise it there, and attempting to force movement to the Southwest along 00′ toward the point Q.

It is an unfortunate commentary on the under-developed state of economic science that we cannot yet say which of these figures is in fact the more realistic —whether production would be increased by more or by less inequality in income distribution—and must rely almost exclusively on our prejudices.

On each of the two diagrams there is drawn a lowest indifference curve, I_0 on Figure I, J_0 on Figure II; these have not entered the discussion thus far. They represent tolerance limits. Only for points to the Northeast of I_0 will labor tolerate the capitalist system; points to the Southwest mean social instability and possible Socialist revolution. Only for points to the Northwest of J_0 will

[3] It may also increase economic security—not so much in the aggregative sense of avoiding depression and mass unemployment as in the immediate and personal sense of insuring each individual an income reasonably close to the average for the community without requiring drastic changes of location or occupation in return. The effect of "unsound" economic policies on personal economic security may have more to do with their appeal than does their effect upon equality as we are measuring it.

capital tolerate liberal capitalism or political democracy; points to the Southeast mean social instability and possible Fascist movements of some sort. The apparent economic success of Socialist alternatives to capitalism, such as the Russian and Chinese systems in the perspective of 1957–58, tends to shift I_0 to the Northeast and J_0 to the Southeast. The apparent economic success of Fascist alternatives to capitalism, such as the German and Italian systems in the perspective of 1937–38, tends to shift I_0 the Southwest and J_0 to the Northwest.

III. *Notes on "American Exceptionalism"*

Much of the foregoing suggests that something akin to subterranean class struggle is going on the America, with income distribution as the unconscious locus of contention. This suggestion some American economists, perhaps the majority, would dispute with vigor, but let us press on regardless to the logical next question. Why has this class struggle in America, if it exists at all, been so attenuated in the past? Is it likely to remain equally attenuated in the future?

This question is by no means novel, and has in fact been discussed for generations in American labor, liberal, and Socialist circles. In the last-named circles a special heresy known as "American exceptionalism" has been identified, labelled, and (to the satisfaction of some critics) refuted. Its basic doctrine is precisely that the class struggle will not become acute in America in the foreseeable future.

Avoiding any direct stand for or against this heresy of American exceptionalism, we may list several explanations for the comparative attenuation of the American class struggle, and under each head consider its prospects for future relevance.

1. First and foremost is the famous American absolute standard of living, which apologists for "the American way of life" never tire of lauding, and to which we have already alluded sufficiently. How effective this will remain in pacifying the American workingman in future years will depend primarily (as we have implied in Figure I) upon the comparative rapidity of the growth of consumption standards in America on the one hand and the non-capitalist countries, particularly Russia and China, on the other. Lenin once said that the road to London and Paris led through Peking and Calcutta. Perhaps it does, but the road to New York and Chicago also leads through more and better workers' housing in Moscow and Leningrad.

2. Second in importance is certainly the American tradition of social mobility, highest of any major capitalist country. A substantial minority if not an absolute majority of American manual workers, native-born white Protestant workers in particular, have always felt and still feel the road to success, involving a rise out of their class, to be open to them or to their children. In the 19th century the road to success lay through independent entrepreneurship, sometimes involving competition with one's erstwhile employer but more often involving a move toward one or another frontier area. Until approximately the

turn of the century, as Sumner Slichter has argued in *The American Economy*,[4] the number of independent proprietors (mainly farmers) did in fact exceed the number of wage and salary earners in the American labor force. This made the belief plausible (although doubtless false) that a really substantial fraction of the labor rank and file, once entering manual labor status or born into a manual worker's family, could actually rise to independent and stable entrepreneurship. On the other hand a large fraction of what would in Europe or Asia have been the leadership group in the laboring class was in fact able to rise in this way. When Eugene Debs, the early American Socialist leader, announced his ambition to rise "not out of his class, but with it," this was regarded as something strange and wonderful; it would be commonplace today.

Professor Slichter himself, although at the antithesis of Marxism, feels this particular element of social mobility to have lost its force and speaks of the economy as having entered with the New Deal a laboristic period, in which employees become the most important single political-economic pressure group and dominate the economic policy decisions of the Government. The majority of labor economists, considering this position somewhat exaggerated, point to a new form of social mobility which has arisen in place of the old one. Centering in the public school and university system, particularly the public colleges of business, engineering, and law, it has opened the path to the upper reaches of corporate bureaucracy to a small number of workers' children. Upward mobility out of the manual laboring class, in other words, still exists but has changed its form. Where it once led through competition with one's employers, it now leads through to joining them as a junior executive, a management interne, or a college-trained technician of some variety or other. Here again it is dubious how large a part of the labor rank and file, once entering manual labor status or born into a manual worker's family, can expect to rise even to junior executive status or its equivalent. On the other hand a large fraction of what would in Europe or Asia be the most expert and adept technicians of the labor movement does in fact manage to rise in this manner.

Certain significant sociological differences between the nineteenth-century upward mobility by independent competitive entrepreneurship and the twentieth-century upward mobility by permission and affiliation should not pass unnoticed. There is first of all a quantitative difference. Proportionately fewer workers rise through higher education to corporate officialdom than once rose through "the university of hard knocks" to independent proprietorship.

The qualitative difference is more important. One set of personal qualities are required for successful emergence as an independent competitive entrepreneur, against the will of the established firms in the field. Quite a different set are required to rise as an intellectual *valet de chambre* or yes-man by the favor and grace of those already at the top. When upward mobility is closed to the com-

[4] *Op. cit.* (New York: Knopf, 1948), pp. 7–13.

petitive, combative type, he may become a leader of revolt and a menace to the established order of things—if not a Joseph Stalin, then a John L. Lewis or a Walter Reuther. When upward mobility is closed to the complaisant corporate bureaucrat, it makes little or no difference. Such types are notoriously less influential among their equals than among their "betters." (The contempt of the manual worker for his lower-level executive contemporary is common knowledge in American industrial relations.) It follows that a change such as has occurred over the past half-century in America, concentrating upward mobility within the business system upon the sleek and polished hand-shaker while shunting the rough and rugged competitor toward labor and, the Left Wing, is a danger to the established order even though the aggregate amount of upward mobility, however measured, may not have fallen in the process.

A postscript to the mobility discussion, before we leave the subject. Mobility has been furthered traditionally by a tendency, denounced by Social Darwinians as dysgenic, for the upper economic classes to fall somewhat short of reproducting their numbers in each generation. The poor boy's chance for success was increased because the rich did not have enough sons, sons-in-law, and nephews to replace them. Since World War II, temporarily at least, this has ceased to be true. The suburban aristocracy raises its children by the half-dozen instead of by the pair. Unless the economy increases its growth rate in the next generation, nepotism alone may become a more serious block to upward mobility in the 'sixties and seventies than it has ever been before.

3. A third important factor retarding class conflict in American has been the cultural disunity of the American working class. To a greater extent than in any industrial country of Western Europe, and to a greater extent than in Japan, American workers have traditionally been divided into mutually suspicious and sometimes hostile camps by differences in race, color, religion, language, and national origin. This suspicion and hostility has on occasion been furthered and fomented by employers, but employer interference is hardly a sufficient explanation of its rise and significance. This working-class disunity is the less attractive side of the famous American "melting pot." But like melting pot itself, it has tended to decrease in importance since quantitive restrictions on immigration were adopted in the 1920's,[5] and since the older immigrants and their children have learned the English language. With a few important exceptions (Negroes, Mexicans, and Puerto Ricans) the position of minority groups in the United States has been improving steadily since the 1930's. Along with this improvement, the importance of racial, religious, and allied divisions in the

[5] It is interesting to speculate on the motives which have persuaded American employers generally to support immigration restriction, against their obvious economic interests. The most important motive seems to have been the fear of foreign, particularly Socialist, ideologies. (The first large-scale restrictions were adopted in 1920, when Russian Boshevism threatened much of Central, Eastern and Southern Europe.) Also important was the psuedo-eugeniic doctrine of "Nordic Supremacy." In a less virulent form than it took in Nazi Germany, this type of racism has had many supporters among the American employing classes, themselves largely Nordic in their origins.

working class has been decreasing as well. The improvement in the status of minorities still has a long way to go as regards the three groups mentioned above, constituting some 10 per cent of the labor force. By the same token, cultural disunity within the laboring class is observed most clearly with regard to problems involving chiefly Negroes, Mexicans, and Puerto Ricans.

4. For however long massive redistribution requires the type of Socialism represented by the proletarian dictatorships of Russia and China, the whole American liberal-democratic tradition stands in the way of undue concern with class conflict or redistribution problems. For all its imperfections in practice—most particularly in the Southern States—the American constitutional system has given civilian Americans and American intellectuals a taste for civil liberties. They will give up their liberties less easily than civilian Russians and Chinese, including Russian and Chinese intellectuals, gave up vague promises of similar liberties sometime in the future.

At the same time it is impossible to deny the charge from the Socialist side, that the allegedly free competition in ideas is weighted heavily in America towards whatever views are most congenial to business interests, and therefore away from class conflict or equalitarianism. Newspapers and magazines, radio and television broadcasts, political campaigns all cost money in increasing amounts. Organs which can appeal to wealthy advertisers or sponsors have obvious advantages over those which cannot, and the case against income redistribution is stronger as a result.

This statement from a plea by a magazine somewhat left of center refers to magazine publishing, but applies equally well to any of the other media of communication mentioned in the last paragraph:

> "Magazine publishing today is geared to mass circulation of mediocre quality, financed by advertising revenue from big conservative business interests. Of those liberal publications that survive, all but [this one] depend on heavy subsidies from wealthy individuals or organization."

5. Four main roots of American exceptionalism, meaning here American unconcern with problems of class conflict and of the distribution of income, wealth, and economic power, have now been examined. They all extend deeply into the American past. Two see already declining in their importance: these are American social mobility and the cultural disunity of the American working class. The two others may be expected to decline as well, when and if Socialist States raise the living standards and improve the civil liberties of this peoples: these are the American standard of living and the American liberal-democratic tradition.

What then is left? Apparently very little. We may apparently forecast for the future increasing concern among the American masses with the redistribution of American income and wealth, meaning not statistical coefficients but the relative living standards of workers and their bosses. And since the masses, by definition, dominate American democratic political institutions, resistance to redistribution may be expected to take anti-democratic forms once mass interest in redistribution has been aroused. By anti-democratic forms we mean, to put it more bluntly, Fascism of some sort; the late unlamented Senator McCarthy may be an ancestor of greater McCarthys to come. The conflict or contradiction between political democracy and economic oligarchy, in this admittedly unoriginal view, is headed for a "Coming Struggle for Power." The antagonists will be egalitarianism of a New Deal or Socialist strain, and some sort of Fascism dedicated to preservation of the economic *status quo*.

There has however arisen since approximately 1940 a new fifth root of apparent American unconcern with class conflict. This new fifth root is not at all unique to America, but it has nonetheless been useful in combating any egalitarian subversion of American economic institutions. We refer to the social lubricant known as inflation.

Demands for income redistribution are expressed in the first instance as demands for more money. Not demands for more relative to someone else or some other class, but demands for more in the absolute sense. What practical men demand in the first instance is not a higher income share but a higher money wage or a higher money price. And inflation permits even the most "unreasonable" of these conflicting demands to be granted in large part. And when all the conflicting demands have been largely granted, class conflict has been averted at the expense of the general price level—meaning the fixed income group. The result, as regards production, output, employment, and the rate of economic growth? Normally favorable at the outset, since strikes and shutdowns can be avoided and employment maximized. The result, as regards the distribution of income and wealth? Very little—most of what inflation gives the workers in wage increases it takes away in higher prices. The position of the worker relative to his boss is practically unchanged, unless one or the other has the misfortune to heed appeals to save and hold his savings in liquid form. As regards redistribution, the whole process must be done over again next year, at the next contract renegotiation, or the next "farm parity" computations, usually with much the same inconclusive result.

IV. *Notes on Policy Paralysis*

When inflation serves a social function, such as lubrication of class conflict or evasion of basic issues of distribution, one may expect measures for its control and containment to be feeble and weak—to suffer from a certain policy paralysis. So they have in fact become in most capitalist countries, and so they are in the United States. This is the phenomenon known variously as "creeping inflation," "secular inflation," "ratchet inflation," and so on. Three specific examples from recent American experience will suffice: direct controls during the Korean War

(1950–52);[6] monetary policy during the inflation of 1955–57; the inflationary recession of 1957–58.

1. The outbreak of hostilities in Korea was followed in America by a buying spree. This raised retail prices to record levels before controls could be imposed, and while wage rates were held stable by pre-existing contracts. Some wholesale and manufacturers' prices followed retail prices up, but some did not. The result was a slight shift of income distribution to the disadvantage of labor and the advantage of raw material producers and retail merchants. When controls were in fact imposed, four courses were conceivable: (a) rolling back prices to their pre-Korean levels; (b) preventing further increases in either prices or wages, in other words freezing the pre-control situation; (c) granting wage increases to restore the purchasing power of the hourly wage, without compensating increases in selling prices; (d) granting wage inereases as in (c) and passing them through to selling prices. Alternatives (a) and (c) would have restored the distributional balance as of June 1950, alternative (a) at the June 1950 price level and alternative (c) at the higher level which followed. Alternatives (b) and (d) would have perpetuated the disadvantage in which organized labor found itself by reason of its long-term contracts, and alternative (d) would have resulted in a further upward movement of the price level.

The Democratic Administration floundered helplessly between these alternatives. Alternative (a) was discarded as impractical administratively. Labor refused to accept alternative (b); resignation of the labor members of the wage control agency followed an attempt to adopt it. Business refused to accept alternative (c); the Supreme Court rejected as unconstitutional an attempt to impose it on the steel industry by Government seizure of the country's major steel plants. A long steel strike led eventually to alternative (d) which nobody wanted, whereupon the whole control system collapsed. Fortunately for American economic stability, the Korean fighting had died down without spreading to other areas, and raw material prices were falling by the time of the Supreme Court's decision in the steel seizure case. The experience indicates, however, the paralysis of the American economy in the fact of even a minor outbreak of inflation from a minor war, a paralysis which shows no signs of cure under the Republicans.

2. After a lapse due to farm and raw material price declines, inflation was renewed in 1955. The renewal occurred in a familiar manner—a wave of wage increases followed by a wave of price increases. It gave rise, however, to little

[6] The greater fiasco of direct controls during World War II is not in point. True, from mid-1942 to mid-1946 the ostensible purchasing power of money was maintained so long as money was not used for purchasing—in other words, so long as large amounts were left to accumulate as liquid assets. A spurious stability indeed, since the value of these accumulations fell (as indicated by the quantity theory of money) as soon as the relaxation of controls permitted free use for spending purposes! What keeps this experience from being in point is the theoretical basis for the action taken, or rather avoided. The belief was widespread that peace would be followed by a major depression unless accumulations of liquid assets were available to maintain purchasing power. Following the experiences of 1946–49, however, no such theory could be propounded to explain the vagaries of policy during the Korean War.

concern. It was neither preceded not accompanied by war or other extraordinary expansion in government spending. (In this it differed from 1950–51.) It was supported neither by flight from money to goods nor by any pressing need to support government security prices. (In this it differed from 1946–49.) A Republican Administration had been elected in 1952 on the promise to halt inflation, and for three years it had kept its promise. (The two prior inflations had occurred under the Democrats.) There was in short little reason to forecast a failure of the monetary authorities to check the inflation by orthodox measure.

Yet failure is precisely what occurred. Money was not in fact tightened perceptibly for two years, while inflation gathered momentum—a classic case of policy paralysis. With the benefit of hindsight, the explanation is not difficult. Organized labor put the monetary authorities effectively on notice of its intention to press for wage increases regardless of monetary policy whenever such increase could conceivably be paid "out of profits"—a clear redistributive move. At the same time organized capital put the monetary authorities effectively on notice of its intention to pass on any wage increases into price increases and maintain its distributive share regardless of either monetary policy or the size of its profits. (The justification for maintenance of large profits was their use for internal investment and research.) Under these circumstances it was feared that restrictive monetary measures would bring on industrial strife if employers resisted wage demands,and reduce employment rather than prices if theyacceded to such demands. There was as evidence the example of 1953–54, when a short "tight-money" recession had failed to bring industrial prices down. So nothing was done for two valuable years, beyond pious exhortations which touched on neither class conflict nor income distribution and did no good whatever. The economy seemed waiting for a miracle which did not happen.

3. Eventually, two years late in this writer's view, the monetary authorities acted. They tightened the money market. Organized labor and capital both held firm. Wages and prices rose more or less on schedule. Output and employment fell off. A full-scale recession developed over a six-month period in 1957–58. The issue became clear and sharp. Both the bell of unemployment and the gong of inflation were sounding: which would be heeded and which ignored? Would monetary and fiscal measures be used to cure unemployment while prices were rising, or used to cut prices while employment was falling?

The answer soon became clear. The Administration yielded without a struggle. Under what amounts to a political guarantee of "full employment at any price," the monetary authorities were put under pressure to ease interest rates and credit requirements. No Administration spokesman was permitted to put the case for waiting, for disinflation or deflation, before the public. At this writing (Autumn 1958) the recession is tapering off uselessly and the pace of inflation increasing. The stock market is booming in flight from the dollar. All this under a Republican "sound money" administration—criticized by the Democratic Opposition for not having yielded to inflationism sooner and more flabbily. As for the issues of income distribution and redistribution, they are dodged with equal agility by nearly all concerned. The exceptions are a few frankly redistributionist business-baiters in the labor movement and in extreme New Deal organizations like the Americans for Democratic Action.

V. *Will Inflation Save the System?*

Authoritative voices are never lacking to defend what is being done by persons in authority. And so it is here. A substantial minority, perhaps even a majority, of American economists support the inflationist line. Deflation, once started, is hard to halt. Full employment, once lapsed, is hard to restore. Economic growth, once retarded, is hard to accelerate. Class conflict, once aroused, is hard to pacify.

This is not the place to reply to these views in any detail. They have the backing of the American Keynesian School headed by Professors Alvin Hansen and Seymour Harris, not to mention such anti-Keynesian inflationists as Professor Slichter. Nor is it the place to present any policy alternative which might perhaps be more palatable in a democracy than the current inflationism.

All we can do is to put two propositions. First, that the burden of mollifying class conflict in America is coming to rest (to a dangerously increasing extent) on monetary inflation. Second, the efficacy of inflation in mollifying class conflict can hardly be of long duration. The evidence for the first proposition took up the first half of this essay. Let us turn now to the second.

The standard pessimistic note on inflation as a solution of the ills of the capitalist system was sounded by Lenin. His statement was made famous by Lord Keynes in *The Economic Consequences of the Peace:* "The best way to destroy the capitalist system is to debauch the currency." But Lenin was surely talking of catastrophic printing-press inflations (Germany, 1921–23; China, 1937–49) rather than the steady erosion of the purchasing power of money by the wage-price ratchet. His differences with the "stability through inflation" writers of the Sumner Slichter persuasion may be less than they appear on the surface.

Leaving Lenin out of the argument, the main difficulty with the inflationist solution for class conflict over issues of economic distribution seems to be this: Neither workers nor capitalists retain their "money illusion" very long, (By "money illusion is meant the belief that "a dollar is a dollar" and that purchasing power fluctuations will be of small amplitude and will offset each other.) Once this illusion has disappeared, the attitudes of all parties in collective bargaining and price administration undergo drastic changes. Rather than contenting themselves with mere money gains which can be granted to all parties at the cost of little inflation, the pressure groups now seek quite explicitly gains which will keep them ahead of the inflation they expect. And once this happens, either the inflation itself must be greater every year than was anticipated—in which case the monetary system must collapse—or distribution problems must be brought out into the open by the disappointment of substantial bodies of workers or business men. Such appears to be the history of inflation under capitalism. The writer knows no case in which it has mollified class conflict in the long run—rather the reverse!

Nor does the "national wage-price policy" frequently suggested by Keynesians do more than bring distribution problems into the open and exacerbate class conflict. If wages and prices are to be stabilized or otherwise regulated, so must be the relation between them—but at what level? Is regulation to involve maintenance, reduction, or increase of the labor share? Maintenance, reduction, or increase of the gap between the worker's scale of living and that of his boss? This is the challenge faced so unsuccessfully by the United States in both World War II and the Korean War. There is no evidence that it can be faced more successfully now.

Special reasons for pessimism regarding the future of inflation as a social lubricant arise from the Cold War between Socialist and capitalist economic camps. In the 'thirties the Socialist side could boast of full employment while the capitalist world was suffering depression; Socialist full employment was accompanied by substantial inflation. In the 'forties and' fifties the Socialists can boast of full employment with *falling* prices, while the worker under capitalism can allegedly retain his job only at the cost of eroding away his wages and savings by what the Marxists call "fictitious values" created by inflation.

The conflict is becoming prominent in the international sphere as well. The year 1958 may be memorable in economic history as the year when Socialist countries posed for the first time on a large scale as the great international friends of consumers oppressed by capitalist inflation, abroad even more than at home. Chinese underselling of Japanese textiles and light industrial products in South Asia, and the temporary wrecking of international tin and aluminum controls by Russian exports, indicate the shape of things to come.

VI. *Concluding Remarks*

In a growing economy like the American, an easy answer to class conflict (easier in the long run than inflation) would seem to lie in "biased economic growth," which we have already mentioned. Biased economic growth, with its bias in the direction of labor income, would permit the gap between worker and boss to be reduced quite steadily with neither absolute income loss to the average capitalist nor any danger or confiscation whatever. This solution has been suggested by many writers, including myself,[7] as the next step after inflation. It has however

[7] M. Bronfenbrenner, "Some Neglected Implications of Secular Inflation," in Kenneth K., Kurihara (ed.) *Post-Keynesian Economics* (New Brunswick, N. J.: Rutgers University Press, 1954) pp. 53-57. This analysis, as well as the present essay, assumes large segments of the American economy insulated sufficiently from market conditions to permit quite substantial shifts in income distribution with only minor effects on production and growth.

an important inadequacy. It overlooks completely the importance of the income gap between worker and boss for the social status, the self-esteem, and the productive incentive of individual capitalists in a materialistic society like the American. To this extent it glosses over one of the main difficulties.

Marxists deny on historical grounds that any dominant class will ever make even the slight surrender of relative position involved in biased economic growth, without being driven to far greater sacrifices by social revolution. We may grant that American capitalists, either in alliance with or domination over the higher ranks of politics and the military, constitute what Professor Mills calls the American "Power Elite."[8] We my grant, too, that American capitalists, especially in such lines as steel and automobiles, are doing all they can to prove Marx right in rapacious efforts to finance expansion from internal funds. To cite one illustration which crosses my desk as this is written:[9] "Net income, after taxes, for each ton of finished steel rose from $6.80 in 1952 to $17.91 in 1957, a gain in profit margin of 263 per cent." Professor Galbraith intends sarcasm when he says:[10]

> "The Marxian capitalist has infinite shrewdness or cunning on everything except matters pertaining to his own ultimate survival. On these he is not subject to education. He continues willfully and reliably down the path to his own destruction."

He may be less sarcastic than realistic.

Paradoxically, one main hope for greater long-run enlightenment and less inflationary rapacity among American capitalists arises from the economic competition of the Socialist camp, in other words from "peaceful co-existence" itself. As and if achievements of Socialism become more impressive, as and if they broaden out from heavy industry into consumers goods and housing, in no country (not even America) will capitalists be secure against expropriation or at least nationalization of their properties if their own record does not show up equally well. And this record, on which so much may depend, will include high wages and low prices, full production and high employment, in such wise as inevitably to pinch profits and profit margins much more tightly than either are pinched at present in American heavy industry and durable consumers goods production. This means a movement in the direction of income redistribution, biased economic growth, or as some Japanese writers have called it, "socialization of the flow," as a capitalist alternative to the Socialist revolution.

But this relative optimism is not a forecast. It requires a political climate in which democratic institutions are maintained, and public opinion placated as well as manufactured, so that effective comparisons with Socialist conditions can be made and can be influential. (It also requires effective resistance in Socialist countries of trends toward creation of "New Classes," "Sweatshop Arsenals,"

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[8] C. Wright Mills, *The Power Elite* (New York: Oxford University Press, 1954).

[9] *The Progressive*, September 1958. (Steel profits in 1952 were however unrepresentatively low because of a long steel strike during the Summer.)

[10] J. Kenneth Galbraith, *The Affluent Society* (Boston: Houghton Mifflin, 1958), p. 68.

"Dictatorships over the Proletariat" and similar "Contradictions of Socialism.") Competitive co-existence may quite conceivably bring with it an anti-democratic reaction, some form of native Fascism, rather than the reactions we have just sketched, to keep American society immune from the virus of Socialist success. McCarthyism in the North and White Citizens Councils in the South may be warnings of something more serious in the future.[11] This sort of Right-wing movement in support of the privileges of an American minority can be expected to give rise to any eqally ruthless, fanatical, and intolerant Socialism as its antithesis.

These two menaces, one from the Right at home and one from the Left abroad, seem to be the principal ideological dangers facing the American economy when it awakens from its current inflationary pipe-dream. This writer's guesses are on the optimistic side, however, otherwise he might consider turning refugee—if were there an inviting country for an American to take refuge.

[11] It is interesting to note the widespread belief that McCarthy's main financial backing came from a group of Southweastern oil men interested in maintaining and extending certain special privileges under American personal and corporate income tax laws. (These particular oil interests, incidentally, form no part of any international oil consortium. They are in fact the principal competitiors of the international "Empire of Oil," seeking among other things to ban Middle Eastern and Latin American oil from the American market.)