

Outline of an Economic Program for a  
High Level of Employment

I.

Greater stability of the American economy after the war and a high level of employment will depend upon our ability to achieve a substantial increase in the standard of living of at least half of the American people through modifying the existing inequality in the distribution of national income. The percentage of national income which the American people customarily save is far too large compared to the part of the national product that investment may be expected to absorb. The discrepancy will be so great in the years to come that huge amounts of public works would be required to close the gap. Even if it were politically feasible to provide investment opportunities through public works (in addition to the amount invested by private industry) to absorb the total amount of savings which takes place under conditions of full employment, the solution would be of a very temporary nature. The amounts involved are so large that the Congress would hardly make available such huge sums for public works year after year. Moreover, it would become more and more difficult to find projects for public funds which the public would accept as necessary and advisable.

There is, in the long run, no other solution, therefore, but to improve the living standards of the American people by increasing the quantity of commodities and services regularly consumed by them, and by reducing the total savings of the community simultaneously. In the period of transition, every effort should be made to increase investment.

II.

The policy to be pursued must be directed towards the following objectives:

1. An increase of investment and consumption in the years immediately following the war. A national income of \$150 billion is necessary to provide for a high level of employment. Assuming the present levels of consumption and generous expenditure by the population for durable goods and for housing after the war, investment and consumption outlets have to be found for about 20 to 25 billion dollars.
2. Policies must be adopted which will result, after a period of years, in a drastic change in the distribution of national income, by curtailing the high incomes and increasing the income of all families in the income groups of \$2,000 and less. Such a change will not be limited to these income groups. It will, in time, also tend to increase the earnings of income receivers who are in higher brackets, say, up to \$5,000.

3. A change in the physical structure of the economy, by reducing the share of the capital goods industries in the economy and increasing that of the consumers' goods industries. The available capacity in the capital industries is far too large for the total amount of investment that can be expected during the next decade.

### III.

All economic policies must be re-examined with a view to finding out whether they will serve the objectives just stated.

- (a) Labor Policy: Continuous attempts should be made towards increasing wages and salaries at the expense of profits. An increase in wages can be sought either through collective bargaining or through changing existing legislation for minimum wages. Minimum wages should be higher than those now existing, and they should be applicable to all wage and salary earners regardless of where they work. In either case, the objective would only be accomplished if the wage increases will not lead to proportionate increases in prices. Assuming that the apparatus of Governmental control in the American economy will not exceed that of 1939, it will be very difficult, except in highly competitive industries, to prevent the shift of higher wages to prices. Every attempt should be made, nevertheless, to increase wages since higher wages will not be shifted either in all industries or to the full amount of the increase.

Wage policy should be supplemented by constant efforts to reduce hours of work, in addition to making the 5-day week as general as possible. It may be assumed that the hours-of-work provisions of the Fair Labor Standard Act will be restored soon after the end of hostilities, if not before. The provisions should be applicable to all wage and salary earners, regardless of where they work. Shorter hours and shorter work weeks are desirable to improve health standards and to increase the leisure period for recreation, education, etc. This alone would be a sufficient justification for reducing hours of work. However, curtailment of hours will only contribute towards increasing consumption and reducing savings if it is brought about without curtailing the total earnings of the wage and salary earners affected.

- (b) Social Security: The change in the distribution of national income through wage and hours policy will, at best, be a very slow process. More can be accomplished at an earlier time through improvement and enlargement of Social Security services. Old age and unemployment relief should be placed on a completely new basis; health protection should be introduced on a large scale and expanded over a period of years. In view of the objectives stated, the ideal arrangement would be to provide security against

old age, unemployment, and sickness not on an insurance basis, but on the basis of straight relief; and to cover the public expenditure resulting therefrom through taxation of incomes in the high and highest brackets. This will hardly be feasible politically. Every attempt should be made, however, to keep the insurance basis as narrow, and the relief character as large, as possible.

- (1) If all men of 60 years and over and all women of 55 years and over were to receive old age pensions, regardless of their personal incomes, the total number of recipients would be 18.5 million persons in 1945, and their number would grow from year to year. On the basis of \$50 a month for each pension receiver, the Government would pay out about \$11 billion a year, the largest part of which would be used for consumption. This increase in consumption would permanently change the distribution of national income in favor of consumption (regardless of whether it is financed through taxation or government deficits), would tend to reduce the rate of savings of people in the lower income groups by increasing security for their declining years, and would hence further increase consumption and reduce savings. These changes could not fail to contribute in time to increasing the share of consumers' goods industries in the country.
- (2) To broaden the basis and scope of unemployment insurance would hardly help to change the relationship between consumption and savings in the community. If the objectives described above should be accomplished, then the level of unemployment would be relatively low and the amount spent for unemployment relief relatively small. If the objectives should not be accomplished and unemployment not be avoided, unemployment relief would merely curtail the reduction in consumption that inevitably ensues from declining employment, but would not change the relationship between consumption and savings.
- (3) One of the most neglected fields of social services in this country is protection of health and assistance in case of sickness. If these services could be developed, a considerable increase in consumption of the community would be achieved. In the beginning, it would lead to increasing investment by erecting new hospitals, health centers, maternity clinics, sanitariums, old age homes, orphanages, etc. After completion of these investments, total consumption in the country would be considerably increased by improving health standards and by providing medical care in case of sickness. Assuming that the Government would spend an average of \$100 a year for each family in the

United States (which means only \$2 per month for each person) consumption would be increased by about \$3.5 billion a year.

- (c) Industrial organization and price policy: The elimination of competition through monopolistic and semi-monopolistic organizations affects economic stability and a high level of employment in different ways. Only a few points will be raised here.
- (1) It is possible that a monopoly, by regulating investment, may avoid over-capacity in a given industry, increase stability of production and employment therein and reduce cyclical fluctuations (which might tend to raise consumption). On the other hand, monopolistic organization may induce over-investment. Monopolies may be encouraged by the greater protection of prices and profits which they enjoy to build up more capacity than they otherwise would, and they may be enabled to do so by large earnings. Excess capacity which is thus created may tend to aggravate the swings of the business cycle.
  - (2) Monopolies come into being whenever profitability under monopolistic conditions is expected to exceed profitability under competitive conditions. Whenever the increase in profitability is caused by the monopoly's ability to raise prices beyond what they would be under competitive conditions, monopolistic organization tends to accentuate the maldistribution of national income: profits in the industry in question would be higher than they would otherwise be and real income of the consuming population lower (this is usually also true if the monopolistic industry does not produce consumers' goods); savings tend to increase and consumption tends to decline.
- It is the policy of this government to fight monopolistic enterprises and to restore free competition whenever and wherever possible. Should the government not succeed in its endeavors, rigid control over, or nationalization of, monopolized industry should be considered. Control agencies would have to see to it that new investment be possibly kept in harmony with the rest of the economy, and that prices be so fixed as to keep industrial profitability within moderate limits.
- (d) Interest rates and credit: Every attempt should be made to keep interest rates in the economy as low as possible. This is necessary chiefly for two reasons:
- (1) Low interest rates would stimulate new investment, particularly when the marginal productivity of capital is relatively

low. Since investment opportunities are now more limited than they were decades ago when new inventions led to huge investment, and the rate of savings is now higher than it was then, new investment for the absorption of savings must be made as attractive as possible. A particularly important example in this respect is housing.

- (2) Efforts must be made to reduce the average rate of profits in the American economy. This is necessary, first, in order to change the relationship between consumption and savings, and second, in order to induce investors to make their funds available for ventures which yield a relatively low return. An average high yield on capital discourages investors from placing their funds into ventures promising a lower return. If the profits in the economy were generally lower than in the past, investment funds will in time become available for less profitable purposes. The maintenance of fairly low interest rates for loans by banks and for loans to the Government may contribute to reducing the average rate of profit in the economy.

- (e) International Trade and International Investment: The revision of commercial policies in the different countries of the world will, at best, be very slow after the war. There is little likelihood for a revision of commercial policies on an international basis and on a broad front.

It may be assumed that the United States will be among the first nations to abolish or greatly curtail import and export control and to restore freedom in international trade at least to the 1939 level. It may also be possible to continue our reciprocity policy although it will be even more difficult than before 1939 to arrive at treaties with foreign countries. In determining our policies concerning international trade, the permanent effect which a certain level of freedom or protectionism in individual industries is likely to have upon the level of production should be the decisive factor. Foreign trade should be examined in its consequences upon the size and upon the distribution of national income.

Our capacity in capital goods industries will be so large after the war that foreign investments which will stimulate exports of capital goods will be helpful in increasing production and employment in those industries. Because of the effect which the service on such investments will necessarily have upon our balance of payments in the future, foreign investments should not be unduly stressed unless we can simultaneously expand our imports in visible and invisible trade.

- (f) Tax Policy: Recent discussion of post-war tax policy has been concerned almost exclusively with modifications of existing tax legis-

lation designed to remove or to change provisions which allegedly discourage or hinder new investment. Relatively little attention has been paid to modifications that would increase consumers' spending power.

No objection should be raised to lowering corporate tax rates after the war by abolishing the levy on excess profits totally or partially. Any further general reduction of rates on corporate income or rates on high personal incomes should be resisted. Encouragement for new investment should rather be sought through liberal depreciation allowances. On the whole, tax reform should aim at channelling part of the nation's savings into the Treasury and at facilitating consumption. This means: (1) maintenance of high rates on large individual and corporate incomes; (2) increase of personal exemption; (3) reduction of tax rates on incomes below \$5,000; (4) abolition of all taxes on consumption (states and municipalities should be urged to do likewise); included should be taxes on sales and turnover, on telephone, toiletries, transportation, etc., except on genuine luxuries on which taxes should be raised, and on tobacco and alcohol on which taxes should be lowered; (5) increase of inheritance taxes which would counteract the maintenance and further accumulation of individual wealth and thereby tend to reduce the rate of savings; (6) reduction of real estate taxes in states and municipalities which would facilitate investment in housing and increase consumption.

- (g) Agriculture. The measures which have been suggested in the preceding paragraphs will help to establish a level of agricultural consumption for the entire nation which is comparable to the present degree of civilian consumption in agricultural commodities. It is doubtful whether this will be sufficient to maintain the conditions of employment and profitability that now exist in American agriculture. Not only is consumption in the armed forces larger than it will be for the same number of people in civilian life, but we also have exported during the war large quantities of agricultural products to our Allies. What is needed for agriculture is the same that is needed for the entire economy: a change in the distribution of national income. With an increase in total consumption the demand for agricultural commodities would increase and its composition would change.

Since it will be difficult for agriculture to find a sufficiently large market at home, it will not be easy to reduce existing agricultural prices except for certain modifications in individual cases. A reduction of prices, however, would help to increase consumption and to acquire foreign markets when the Lend-Lease deliveries will be at an end. On the basis of the present prices the United

States is probably not competitive in a number of agricultural commodities. What is needed will be a continuation of the measures that were started in 1933 for adjusting agricultural production to the level of potential demand at home and abroad. While this adjustment is being made, it may be necessary to enlarge our sales abroad by granting export subsidies.

It should also be mentioned that relatively high prices for agricultural products affect prices for manufactured commodities and may make more difficult for us to meet competition on the world markets.

- (h) Investment and Public Works. Emphasis has been given in this program to increasing consumption and reducing savings. It should be pointed out, however, that, at the same time, everything should be done to stimulate and increase investment in order to find employment for the available capacity in capital goods industries. This will be particularly necessary in the first years after the war, since the increase in consumption and the reduction of savings will, at best, be a slow process, and since capacity in capital goods industries will be very large especially in those years. Every effort should be made to curtail capacity in these industries, and not to increase it.

Production and employment in capital goods industries can be encouraged either through facilitating expenditure by private enterprise for purchases from those industries, or through public works. Expenditure by private enterprise can be stimulated, as mentioned before, through keeping interest rates low, through liberal depreciation allowances in tax legislation, and through stimulating foreign investment. The most powerful stimulus for investment expenditure is, however, a high level of consumption which must be the basic objective of any program.

In stimulating investment expenditure, and particularly in selecting projects for public works, chief emphasis should be placed on investments that will result in permanently increasing consumption in the community, and that will necessitate recurrent investment for repair and replacement.

A few examples may be mentioned. If private expenditure for housing is not sufficiently large, investment in housing should be made through public funds; it would increase investment and raise the level of consumption permanently. The same is true of the "urbanization of the countryside of America," which would provide investment opportunities for a number of years and increase consumption after completion. Similar results could be expected from the modernization and cheapening of the services of all means of transportation and communication (railways, inland and ocean shipping, aviation, telephone and telegraph), and all public

utilities. And finally, investment in educational, agricultural and recreational institutions would absorb large funds for years to come and would, after completion, provide private employment opportunities and increase consumption.

The problems inherent in an adequate investment policy--volume, time, and type of investment--are so difficult that a Federal Agency (a Federal Investment Board) should be given authority to take all measures that seem possible and advisable within a system of private enterprise.

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