some package labeled "direct controls." My guess is that if we were to go in for a full system of price controls and stay with it for 10 years, we would have passed the point of no return. Price freedom is the key to all other economic freedoms.

DISCUSSION

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This is not an easy paper to review. The author revels in deviating from the orthodox herd, whose views on inflation are held to be blind acceptance of blind dogma. The paper is larded with scholarly allusions—although the author seems not to know that the "Devil's Advocate" does not defend heresy but rather contests against sainthood. There are medical and historical analogies—even references to the dramatic arts, to college football, and to aviation—not clearly applicable to the problem addressed here. There is gross disregard of the difference between inflation with slack and inflation with full employment. There is a remarkable disregard of the actual scope of current price stabilization, of the methods used and of the orientation of price control to production needs. There is an elementary discussion of the functions of relative prices, well applicable with reasonable general price stability but quite meaningless in the frenzy of general price explosion such as prevailed late in 1950. To some of the points in this paper we may stipulate agreement: that defense production is a major goal; that inflation is in some senses symptomatic—although even the author will agree that inflation is a cumulative process in which worsening of the symptom engenders further illness; that most defense costs must be met currently; that price stabilization is neither the single nor even the best method to control inflation.

There are many statements in this paper which are attractively formulated and often partly true. The total impact is not persuasive to me. On the last page, there are three short summary statements purporting to encompass Mr. Paarlberg's entire case. I am unable to accept any of these.

First, Mr. Paarlberg holds that maximum production and not inflation control is the real problem—that the benefits of inflation are dogmatically underrated and the damage therefrom exaggerated by self-interested professional economists with fixed incomes. Apparent failure clearly to understand the determinants and the impact of inflation is general throughout the paper. The "chief charge . . . against inflation" is not that it reduces levels of living. To assert that "another way . . . [to control inflation] . . . is to let prices rise, thereby pricing consumers out of the market" is a fallacy in reasoning from the particular to the general. With general price stability, an increase in the price of a particular commodity will usually decrease its sale. A rise in general prices will not restrict the sale of commodities in general. Most economists consider that enhancement of the aggregate price level engenders enhancement of aggregate money income. Rising general prices can restrict total consumption only if wage distribution is rigidly controlled through forced allocation of wages to groups with consumption propensities lower than those of wage

* These are the personal views of the writer and are not necessarily those of the Office of Price Stabilization.
Earners. This method of dampening inflation is surely impracticable in the present American economy. Further, such wage control in the "national melodrama" must be quite as objectionable to Mr. Paarlberg as that "fair-haired hero...Price Freeze." Inflation is a price-income-price spiral. Rising money income without significant income redistribution does nothing to constrict total demand.

In an economy not close to full employment, a mild and gradual and unanticipated rise in prices is stimulating to enterprise and to production. This is not now nor will it soon be the kind of problem to which economic stabilization is addressed. There was a drastic speculative inflation a year ago. There are now firm defense commitments which almost certainly assure heavy inflationary pressure in the near future. Even without full-scale war, such inflation if uncontrolled would be neither mild nor gradual nor would its continuance be long unanticipated. The anticipation of price increases induces withholding goods from use. The more critical the defense need, the stronger would be the incentive to hold for further price increases. Rapid general price increases are irregular among commodities. Inefficient producers are not weeded out. Labor, materials, and plants may be diverted from essential defense uses. Sellers will not make long term contracts necessary to efficient planning of production. Wage renegotiation will interrupt production processes. Speculative cunning is rewarded at the expense of productive efficiency.

Economists agree that in normal times the free market best allocates resources. However, such allocation is achieved through changes in relative and not in general prices. The functions of relative price changes are impaired or destroyed when price rises are sharp and foreseen and are feeding upon themselves. Mr. Paarlberg would be startled to observe the dislocation of relative prices disclosed by the freeze of January 26, 1951. He would apparently be surprised to know that a major function of the Economic Stabilization Agency is to repair these dislocations and to restore the effectiveness of relative price changes in guiding resource use. The freeze of January 26th was a distasteful necessity. Even so, inspection of the eighty-odd tailored regulations, as many supplements to the General Ceiling Price Regulation, the amendments to both, and other forms of regulation issued since January 26th would indicate beyond doubt that price stabilization is not price freezing. It is a continuous process of maintaining normal price relations as well as containing general price levels.

Mr. Paarlberg's disregard of the costs of inflation is amazingly cavalier. There is severe damage to national defense and to productive efficiency but there are also major social costs: impairment of the whole social fabric through destruction of middle class assets; creation of antagonisms from income redistribution; damage to saving propensities and to capital creation; deterioration of morale because of speculators' elevation in national emergency to the top income strata.

Mr. Paarlberg's second claim is that inflation may better be controlled by methods other than price and wage controls. All agree that direct controls should be only a part of the total attack upon inflation, but they are a necessary part in rapid mobilization. Effective direct controls encourage saving. They thus discourage speculative withholding and reduce the inflationary gap. Even if taxation and credit controls could substantially eliminate the inflationary gap, there would still be heavy and inevitable pressure in this full-employment economy for upward wage adjustments. We cannot in a mobilization economy
afford the unemployment which we normally tolerate and which serves nor-
mally as a brake upon inflation. Presumably, indirect controls limit wage and
other income pressures by restricting money demand to the extent that
employers can neither afford higher wage payments nor reflect wage increases
in higher prices. However, the principal buyer of many strategic materials
is Government. Here no such indirect control of wage and income levels is
possible. And income increases in these fields would surely spread through the
rest of the economy in the absence of direct control. Mr. Paarlberg could fruit-
fully examine the changes during 1950 in prices of rifles, tanks, aircraft, and
other military equipment. He might well consider the implications of these
price changes.

Third, Mr. Paarlberg holds that direct controls will surely transform Ameri-
cans into a nation of traitors, beggars, law-breakers, wheedlers, scroungers,
and special pleaders. I hold too high an opinion of Americans and of Ameri-
can Government to concur in this view. Fairly devised and honestly admin-
istered, an efficient system of direct controls can be enforced with only minor and
temporary loss of individual economic independence—much less enduring and
stringent than the loss of liberty from defeat by Communism. It is true that
the public must understand the stabilization program and its obligations
thereunder. I share Mr. Paarlberg's belief in democracy and his faith in the
soundness of informed public opinion. The extent and impact of black markets
in World War II have been greatly overplayed. Until June 30, 1951, techniques
were available to control such black markets. The experience of our British
allies demonstrates that intelligent and law-abiding nations can in fact endure
prolonged control without destruction of moral fiber or personal liberty. And
in doing so they can defend themselves.

I like controls no more than does Mr. Paarlberg. I look forward to the day
when they can be lifted. Not long ago, all of us saw war. All of us now are
in danger of a political force whose victory would mean far more serious
results than price control. The American people have assumed terrible re-
sponsibilities in their attempt to contain Communist imperialism. These respon-
sibilities require us to accept the burdens of mobilization. They require us also
to prevent the inflation which could as surely destroy us as could military
defeat.

DISCUSSION

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The United States, as well as the other nations of the free world, have a
very genuine interest in the economic health of Canada. Part of this interest
stems from the natural desire to see a neighbor doing well, but the primary
cause for this concern over Canada's welfare stems from the hard realization
that Canada, with her vast supply of natural resources, is in a position to play
a very important role in the current stand against Communism.

Mr. Taylor has pointed out in his paper that the most important domestic
problem confronting the Canadian people is that of controlling inflation. He
has then described the tools which the Canadian government has chosen to
use in combating this enemy. Up to this point, reliance has been placed almost
wholly upon a scheme of indirect controls—monetary, credit and fiscal con-
trols.