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SPEAKING OUT: NORMAN TURE – on Administration Economic Policy

STAY WHICH COURSE? THE NEW REAGAN PROGRAM

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The measures proposed by the President in his State of the Union message leave no doubt that the Administration no longer intends to "stay the course." In lieu of an economic program focused on the requirements for a prosperous and growing economy in the long run, as originally proposed early in 1981, the President's new program is a peculiar amalgam of federal quick fixes for unemployment and efforts to cut prospective deficits.

It is clear that providing the conditions which facilitate efficient performance by a growing, free-market economy is no longer the Administration's principal concern. The new course has been set by an irrational fear of federal budget deficits. The magnitude of prospective budget deficits – arithmetic residuals derived from projections of government outlays and receipts which in turn depend on projections. of the economy's performance – now clearly dominates the Administration's decision making about the role the government should play in the nation's economic life. The consequence is that the focus and objectives of the original Reagan program, as articulated early in 1981, have been discarded, even though they may continue to receive lip service.

The program which the President presented to the nation shortly after his inauguration aimed at restoring the vitality of the U.S. economy by affording a powerful impetus for renewed growth to the private sector of the economy. This resurgence was to result from curbing Federal intervention in the economy, from reducing government-imposed impediments to efficient functioning of the market system. The program rested on the conviction that if the market system were freed up and its operations were allowed to reflect more truly the preferences of private citizens in households and businesses rather than those of public policymakers, the economy would surely find its way to a higher, steeper, and steadier growth path than that on which it had been stumbling since the late 1960's. The program was focused on the long run, on providing the conditions and the institutional setting under which the economy could achieve greater efficiency and provide more satisfactory outcomes than it had for a decade past. The program was not intended to be nor designed as a quick fix for the flat output performance and high inflation of the late l9l0's.

Each of the four parts of the program had the same focus, to reduce government intervention in the economy and distortion of the market system's functions. Cutting back on spending growth was not to be a mindless exercise in budget slashing but an effort to make sure that the government undertook programs only for valid purposes and only in the most efficient way possible. To allow markets to work more efficiently, tax policy was to aim at reducing tax-induced distortions of relative costs and prices. Particularly important was to reduce the excessive tax burdens on private saving and capital formation, by reducing individual income tax rates and by replacing the obsolete depreciation system with an up-to date capital cost recovery system.

The federal regulatory system was to be reformed in the interests of assuring that the objectives of regulatory programs are appropriate and that these objectives are pursued at the lowest possible cost, not merely in terms not only of compliance burdens but also of the distortions of production activity. Monetary policy was to aim at a moderate and steady growth of the money supply, both to reduce inflation and inflationary expectations and to afford greater certainty about the future monetary conditions than had been possible in face of the roller coaster ups and downs in the rates of growth of the money stock. Financial markets can't operate efficiently in a highly erratic and inflationary monetary environment.

Three things arc obvious about this program. One, its focus was on the long run; it did not aim at producing instant recovery for an economy that had been going no place since the end of 1978. Two, it certainly could not be the cause of the economic distress which began two years before the program was presented and which has continued since. Three, it has disappeared.

Control of government spending by weeding out inappropriate or ineffectual programs is clearly a lost cause. In lieu of efforts to reduce tax barriers to growth-generating activities, tax increases to reduce deficits are the order of the day. Regulatory reform has lost its oomph. And monetary policy since last July has gone on an expansionary binge, as if the Federal Reserve were trying to reinflate the economy out of the economic doldrums.

In place of the original Reagan program, the nation is now offered a set of measures the principal objective of which is to reduce deficits. These deficits are not to be reduced on the basis of a searching and critical reappraisal of government spending programs, evaluating their respective objectives, the means by which they can be most efficiently pursued, and the amount of resources which should be committed to them. Instead of this constructive approach to reducing federal spending, a kind of freeze is to be put on the government's outlays. This freeze proposal is a cry of frustration and despair; it certainly is not the basis for a sensible, long-term reform of government spending.

The most distressing symptom of deficit hysteria is the President's call for a contingency tax increase of up to $50-billion per year for fiscal years 1986-1988. Quite apart from the fact that the contingency income tax surcharge and $5 per barrel oil tax must accentuate business uncertainty and undercut investment plans, these tax increases would reduce gross private savings at least dollar for dollar. Clearly, they would not ease the deficit's draw on private savings; they are likely to be far more damaging to capital formation than the federal deficits they aim to reduce. What no one has yet explained is how having to pay more taxes on the income you earn gives you the incentive to work harder, save and invest more, be more venturesome in developing new products or production processes, be more willing to start new business - to do anything that could promote recovery, let alone vigorous and sustained growth over the long term.

If one could today identify a Reagan Administration economic policy for the coming two years, it appears to consist of efforts to tax and inflate ourselves out of the horrendous looming deficits, irrespective of the long-term damage this will do to the economy. This is certainly not a course to stay.

This is the first in a series of special articles on Administration policy written by guest columnists for Inside the Administration. Speaking Out will feature leading figures both in and out of government, expressing their view of Administration policy on: federalism, unemployment, taxes, regulation, agriculture, environment, health, energy and government management.