

## ECONOMIC ASPECTS OF THE AGENDA FOR THE NATION

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Prepared for the discussion of the Brookings Institution's Agenda for the Nation at the Pittsburgh Hilton Hotel, February 27, 1969

There are not enough rich people, and not enough people are rich. There is not enough power, and too few people have power. My agenda for the nation is simple, direct and, I hope, appealing: Create more rich people and make more people rich; create more power and disperse power more widely. Wealth and power are so closely related in our society that these two tasks are inseparable, so I shall treat them together.

Accumulation of wealth or power is not desirable for its own sake but for the benefits -- material, cultural, and spiritual -- that it provides. Since my time is limited, I shall not waste it by arguing this simple point. Were it not for the widespread, romantic notion, currently disseminated by Marxists and hippies alike, that wealth and evil are synonyms and poverty and virtue handmaidens, there would be little reason to mention the very obvious point that the main sources of material progress and social justice have been capital accumulation and productivity change and not government programs to help the poor. We need only look at the high standard of living that is called "poverty" in this country and contrast it with the standard of living that constitutes relative affluence in large parts of the world to get some measure of the material and cultural advantages provided by economic growth. Yet most governments generally ignore this fundamental point when promoting social welfare programs.

Let me introduce two premises before I offer my plan to make more people rich and powerful. The first is that change and progress occur most readily and most frequently when power is dispersed. Whether the power is held in the name of some private individual or group such as a corporation or a labor union or held in the name of the public or the public interest, concentration of power creates a powerful interest group that opposes change. This is a main reason why the young and powerless rail and riot against governmental bureaucracies in countries as different in their political structure as Czechoslovakia, France and the United States. Power is concentrated, and increasingly power is concentrated in the government's hands. As Mr. Schultze notes at the start of his paper in the U. S., taxes, representing government's control of resources, have grown more than three times faster than income, a measure of the society's resources.

My second premise is that, more often than not, governments are myopic. As a result, most resources and the energy of administrators are expended in short-term solutions to long-term problems or in seeking solutions to short-term problems. Few of us are clairvoyant, and the government does not have an exclusive monopoly on myopia. But in the private sector, sooner or later competition forces the revision or elimination of unsuccessful programs. There is no similar force in the public sector and programs, once started, are difficult to stop. More importantly, competition directs private resources toward the solution of long-run problems. Again, there is no similar force in government.

Even the rhetoric of political campaigns and administrative announcements frequently stresses the immediate and discounts the future, as when Sargent Shriver promised to end poverty in the early seventies or some forgotten member of the Wilson administration, in a McNamara-like statement, promised to have the boys "out of the trenches by Christmas."

Although they seem far removed from the topic, my premises are central to the problem of deciding on how to solve social problems. I will illustrate using two problems that we have been asked to consider today. One is the balance of payments; the other the task of raising the standard of living of the poor.

Few series of events illustrate better than the vacillating policy toward the balance of payments the way in which the U.S. government has used short-term solutions to solve a long-term problem and, as a result, not only failed completely to solve the problem but moved farther from the solution. For more than a century, economists have known that a long-term balance of payments deficit can be eliminated only by a change in the exchange rate or a reduction in the rate of inflation relative to the rate of inflation in other countries. For eight years, as long as official attention has been directed to the problem, we have refused to consider any change in the price of gold or in the exchange rate and instead pursued policies that increased rather than decreased the rate of inflation. Each time we were faced with a large outflow of gold, we imposed a new set of controls. Each set of controls was followed six months or a year later by new controls or a more rigid version of the old controls. Can anyone now believe that these short-term measures were more than stopgaps designed to hide rather than solve the problem and to delay accepting the long-term solution?

In a growing economy -- ours grows at a long-term average rate of three to four percent a year -- there are two main ways to raise the income of the poor. One, the short-term way, is to redistribute income. In the past few years, we have used this method to an ever-increasing extent. Generally, this method takes resources from more productive uses and pushes them into less productive uses. We raise the current income of the poor by lowering the future income of the rich and the poor alike.

Because we have lived in a growing economy for several centuries, each generation leaves more income and wealth to its heirs than it receives from its forbears. Each new-born child can expect a higher standard of living, a higher real income than his father, a lower real income than his son. The reason is that each generation has saved and accumulated capital, mainly through private efforts, and with the new tools and techniques was able to raise productivity. Taxes that restrict capital accumulation inhibit growth and reduce future income. Social welfare programs generally shift resources from more productive to less productive uses and thus reduce the size of future income and lower the future income of the poor and the rich alike. Many and perhaps most of the social welfare programs we have enacted are of this kind and have this result.

The most reliable method of increasing wealth -- of making people richer -- is to avoid programs that discourage saving, capital accumulation and productivity increases, to avoid social myopia and the desire to push resources into projects that promise much but succeed mainly

in keeping real incomes from rising as much as they might. The far better alternative is to reduce the relative size of government by cutting both expenditures and taxes. This is the way that most growth and progress have been obtained.

I quote from a recent article by Peter Drucker called, "The Sickness of Government;"

"...we are now appalled to realize that, during the past three decades, federal payments to the big cities have increased almost a hundred-fold for all kinds of programs, whereas results from this incredible dollar-flood are singularly unimpressive.... We now have ten times as many government agencies concerned with city problems as we had in 1939. We have increased by a factor of a thousand or so the number of reports or papers that have to be filled out before anything can be done....

(From Peter Drucker, "The Sickness of Government," The Public Interest, 14, Winter 1969.)

Who will argue after all the programs, after all the expenditures and the mass of paper to which Drucker refers, that the net effect of the programs has been to raise the income or standard of living of the employable welfare recipients above what their income would have been if none of the expenditures had been made and none of the taxes collected? If, as I believe, the net effect of the programs has been to hold down the income of the poor and reduce their standard of living, the most desirable use of the so-called fiscal dividend is tax reduction. Indeed,

I believe that in preparing an agenda for the nation we should not wait for an end to Vietnam but should reduce both taxes and expenditures now and again later when economic growth and the end of the Vietnam war permit us to do so.

Saving and capital accumulation that encourage growth do not assure that the productive opportunities will be shared by all members of society. There are those, who for one or another reason are incapacitated, infirm or unable to compete for jobs. There is a growing consensus in favor of some type of guarantee of minimum income that would provide for these cases. In addition some who are willing to work are kept out of the labor force because of restrictions on employment opportunities. We are all familiar with the fact that qualified Negroes and members of other minorities have poorer opportunities not only because they have been barred from specific jobs but because they have received inferior educations and do not have the training to fill many of the job vacancies that now exist. Less widely discussed are the restrictions on employment opportunities stemming from the work rules agreed to by unions and managements or open and hidden membership restrictions imposed by trade union monopolies. Hardly ever mentioned are the restrictions sanctioned by law and enforced by government. These range from minimum wage laws to licensing requirements for taxicab operators that reduce the number of taxicabs and the employment opportunities of the relatively unskilled, the young and the underemployed or licensing requirements for barbers or bartenders that have as a main purpose the

reduction in the number of barbers or bartenders. Minimum wage laws and licensing restrictions have a common effect: They reduce employment and job opportunities.

My agenda for the nation calls for breaking down these restrictions many of which are, as I have said, imposed or enforced by governments at all levels. I emphasize this last point because most discussions of the kind we are about to have begin by presuming that new programs are required to solve the social problem under discussion. In my view, the fact that we impose new restrictions rather than repeal old ones explains our past failures far better than our few past successes. In designing an agenda for the nation, we ought to spend some time discussing some of the ways in which governments -- at all levels -- can provide higher incomes and more job opportunities by removing many of the restrictions government now imposes and the regulations government now enforces.

Finally, a brief word about the consequences of tax reduction for the current inflation. While tax reduction alone contributes to inflation, an equal reduction of taxes and expenditures has a slightly anti-inflationary effect. I do not want to overstate the effect of tax reduction on inflation or the anti-inflationary consequences of a reduction in taxes and expenditures. In an economy that remains close to full employment, the effect on inflation of reducing taxes and expenditures is not very large and I mention it only to make clear that the effect, though small, is in the right direction.