Draft Position Statement
ECONOMY
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December 11, 1979

Inflation is our nation's number one problem. Now over 13% -- the highest peacetime rate in our history -- it is eroding both our economic strength and our position in the world. More important, it is draining our national spirit, and disrupting the lives of all Americans -- especially the poor and the middle class -- who find meeting everyday expenses increasingly difficult.

But inflation is not caused by any "selfishness" on the part of the American people. To contend that reducing inflation requires more sacrifice is only a cruel renunciation of the hope for upward advancement that each American cherishes. Nor is inflation the result of implacable external forces. True, OPEC has continually raised its oil prices, but other nations, far more dependent on imported oil than are we, have kept their inflation rates substantially lower than ours.

Yet we hear many of our leaders tell us that the economy is so difficult to manage these days that the best we can do is accept inflation and learn to live with it. It does <u>not</u> have to be that way. The fact is, many of our economic problems are the direct <u>result</u> of counterproductive attempts to "manage" the economy. Our challenge is to break free from the discredited notion that government can "fine tune" the economy by invoking the proper combination of taxing and spending. Instead, we must commit our nation to a bold program of economic growth.

Our first step to restore economic health must be an across-the-board reduction in tax rates. Excessively high tax rates have discouraged production, resulting in too few jobs and greater inflation; reducing these rates would help reverse these trends. Further, exempting from income taxes at least some portion of interest from savings would increase savings, providing more capital for individuals and small businesses to increase their investment in productive, private jobs.

Second, the federal government must end deficit spending, and unjustifiable increases in the money supply. This means we must require that the federal government balance its budget. But more important, we also must place strict limits on federal spending. It will only further harm the economy to balance the budget by raising taxes, as the present administration has sought to do. In contrast, limiting federal spending will free more capital for private businesses to expand production, while at the same time keeping the money supply in check, which will reduce the upward pressure on prices.

Third, we must cut back on government regulation. Deregulation must be pursued on a broad scale, with other regulatory programs significantly scaled down -- especially with regard to small business.

These actions would help reduce inflation and spur economic growth, providing more and better jobs for all Americans. This -- more rapid progress and higher living standards, rather than allocation and "living with less" -- must be the primary goal of our nation's economic policy. We should seek to return to Americans the hope for a better life, not just for some time in the distant future, but for the next year as well.

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Policy Memorandum No. 1 ECONOMIC POLICY

Reagan for President
Los Angeles, California
August, 1979

Problem

By a wide margin the most important issue in the minds of voters today is inflation. If we add other economic related issues--such as the fear of becoming unemployed, the energy shortage, and high taxation--it is clear that national economic policy is of critical importance.

Compounding the problem for any presidential candidate is the public's pessimism. They believe that there is little that the President, any President, can do about it.

Thus, the economic policy problem is twofold:

1. The development of a valid plan. Our economic problems are deep-rooted and complex. To resolve them will require an economic program that is capable of dealing with a wide range of complex issues. It must be comprehensive, economically sound, and timely. In other words, we must come up with a program that, if applied, will work.
2. Convincing the public of its validity. Because of the voter's deep skepticism about the ability of any President to deal with the economy, it is important to show conclusively, that if Reagan is elected president in 1980, he can and will carry out the specific actions necessary to restore economic health--to reduce and eliminate inflation, to increase employment, and to stimulate economic growth.

The Myth of the Economic Bellyache

For many years it has been an article of faith among academic economists, and especially so among Republican politicians, that any attempt to increase employment would lead to more inflation, and that any attempt to reduce inflation would result in more unemployment. Their faith in this reverse linkage between unemployment and inflation has now been communicated to a large part of the public.

The consequence has been political paralysis in regard to the development of a powerful economic policy by Republicans during the past decade or two. The Democrats, being naturally less responsible, have pushed policies which they believed created jobs, even though at the expense of higher inflation. Unfortunately for them the day of reckoning is now at hand. The day has come when inflation has become so bad that many voters are more concerned about it than possible unemployment.

To some economists it never was entirely clear why it was necessary for unemployment to go up when inflation went down. The hyperinflation that Germany experienced in the early 1920's showed that as inflation rose to higher and higher heights, so did unemployment.

These lingering doubts about the "iron law" of the reverse relationship between unemployment and inflation has now blossomed into rampant skepticism and full disbelief, even among economists.

If we look carefully at the experience of the last two decades - - from 1960 to now - - we can see that there has been no trade-off between inflation and unemployment. What everyone believed was happening simply was not happening.

As the 1978 report of the Federal Reserve Bank of Minneapolis succinctly stated:

> "…Many believe that even a modest cut in the government budget deficit or in money growth would cause massive unemployment or long periods of slow economic growth and high unemployment. Such beliefs are based on a confusion.
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> "…In the United States from 1960 to 1978…there appears to be <u>no trade-off</u> between inflation and unemployment.
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> "…<u>Higher inflation tends to be associated with higher, not lower, unemployment</u>…in the late 1960s and early 1970s when inflation rose, unemployment generally rose.
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> "…If history is any guide, this means that if more stimulative policies are expected, then we should get more inflation and more unemployment. Consequently, if tighter policies are expected, we should get less of each. <u>Gains can thus be made against inflation without incurring the high costs of increased unemployment."</u>

It is, thus possible to reduce inflation and stimulate economic growth without having an economic bellyache, recession, or depression.

The challenge is to break free from the discredited economic beliefs of the past and to craft a realistic economic policy powerful enough to halt our slide into economic chaos.

<u>The Plan</u>

Inflation is the main domestic problem facing the United States today, not only for its pure economic effects, but also because of its negative social and political consequences.

And the main cause of inflation is the massive, continuing budget deficit of the federal government.

The budget deficit must be reduced and eventually eliminated, but in doing so it is important to remember that every deficit is a function of both revenue and expenditures. The most effective way to eliminate the deficit is to reduce the rate of growth of federal expenditures and to simultaneously stimulate the economy so as to increase revenues in such a way that the private share grows proportionately more than the government share.

The basic components of such an economic policy are:

(1) <u>We must speed up economic growth to increase the take-home pay of workers and to provide more jobs.</u>

It is time the United States began moving forward again – with new inventions, new products, greater productivity, more jobs, and a rapidly rising standard of living that means more goods and services for all of us. This can be done if we:

(a) <u>Reduce Federal Tax Rates</u>

The level of taxation in the United States has now become so high that it is stifling the incentive for individuals to earn, save, and invest. We must have a program--of at least three years duration--of across-the-board tax cuts. The personal income tax rate must be cut by a specific percentage every year for three years, especially the higher, incentive-destroying marginal rates. The capital gains tax, and the corporate income tax must be cut a commesurate amount. Tax rates that are too high destroy incentives to earn, cripple productivity, lead to deficit financing and inflation, and create unemployment. We can go a long way toward restoring the economic health of this country by moving toward reasonable, more fair levels of taxation.

(b) Index Federal Income Tax Brackets

The most insidious tax increase is the one we must pay when inflation pushes us into higher tax brackets. While inflation is with us, taxes should be based on real incomes, not government inflated ones. Federal tax rate brackets, as well as the amount of exemptions, deductions, and credits, should be adjusted to compensate for inflation.

(c) Reduce and eliminate counterproductive federal government regulation of business, education, and the professions.

The recent example of the deregulation of the airline industry has demonstrated that the removal of outdated, overly restrictive government regulations can result in better products and services for consumers, lower prices, more jobs, more profits for business, and more tax revenues for government. Deregulation should be pursued vigorously on a broad front - - in the trucking industry, et al. The aggregate cost to business of complying with federal regulation in 1977 was over $75 billion (Weidenbaum), and these costs are passed on to the consumer in the form of higher prices - - higher prices of homes, of food, of gasoline, of virtually everything we buy. This does not mean we should eliminate all regulation now, but it does mean that we should forcefully trim back government interference in the private economy.

(2) Federal spending must be controlled.

It is not necessary to cut federal spending from its current levels, but it is necessary to reduce the rate of increase in federal spending. This would include the following actions:

(a) Reduce and eliminate waste and extravagance in federal spending.

The amount of fraud, waste and extravagance in federal programs is legendary. According to an August 8, 1978 report of the Senate Governmental Affairs Committee, "recent evidence makes it clear that fraud, abuse and waste in the operations of federal departments and agencies and in federally funded programs are reaching epidemic proportions." And the Office of Management and Budget now estimates the amount of annual waste could reach as high as $50 billion. To facilitate the identification and elimination of this waste citizen task forces (similar to the ones Reagan pioneered while Governor of California) should be established for all major government programs.

(b) Establish Effective Controls on Federal Spending

To re-establish control over the federal spending machine we should require a two-thirds majority vote in the Congress to approve every major appropriations bill, and building on Reagan's pioneering effort with Proposition 1 in California in 1973, seek a constitutional limitation on the percentage of the people's earnings that can be taken and spent by the federal government.

(c) Give the President Line-Item Veto Power Over the Budget

This is a budget control device that Reagan used very effectively in California. The President would submit his budget to Congress. Congress could then add or subtract from this budget, but the President would have the authority to delete line budget items that had been added.

(d) <u>Transfer Certain Federal Programs, Along With the Tax Resources That Finance Them, Back to State and Local Governments</u>

By transferring the operation of certain federal programs, such as welfare and education, to state and local governments the effectiveness of these programs can be increased and we can eliminate the cost of the federal bureaucracy and the "traffic charge" of sending tax money to Washington to be doled out to state and local governments under federal regulations.

(3) <u>Balance the Federal Budget</u>

If all the other steps mentioned above are taken the federal budget will move rapidly toward balance. To ensure that it stays in balance, we should add a <u>balanced budget amendment</u> to the constitution. This would best be done by Congress, but if Congress should fail to act the President should take the case to the people and call for a constitutional convention to enact such an amendment.

(4) <u>Economic policy must be consistent, dependable, with no abrupt changes.</u>

One of the fundamental causes of inflation, low productivity, and high unemployment is uncertainty. The decision makers in free, private economy simply cannot operate effectively if the economic rules are subject to sudden, capricious change. As the 1978 report of the Federal Reserve Bank of Minneapolis states:

"What policy makers must do to fight inflation is to eliminate, whenever possible, surprises in monetary and fiscal policies…the only way to make policy credible is to announce it, implement it faithfully, and avoid shifting it abruptly."

The most powerful cause of business uncertainty is the capability of the federal government to suddenly impose wage and price controls on the economy. There is almost unanimous agreement among economists and politicians that such controls do far more damage than good. Yet the political pressures are often such as to preclude rational action. We need a <u>constitutional amendment to prohibit the imposition of wage and price controls</u> except in case of war or national emergency.

(5) <u>Propose an "Economic Bill of Rights"</u>

There are a number of elements of economic policy that are so crucial and fundamental to the proper functioning of a free economy that they should not be subject to the political whims of any particular Congress or Administration. Certain guarantees of economic freedom should be embodied into our Constitution in the same way that certain personal freedoms are guaranteed by the Bill of Rights. These economic guarantees should be set forth in a single amendment, with appropriate sections. Such an amendment might include:

Section 1. Limit the amount the federal government can spend.
Section 2. Require the federal budget to be balanced.
Section 3. Prohibit the imposition of wage and price controls.
Section 4. Establish line-item veto power for the President.
Section 5. Require a two-thirds vote of Congress on all major spending bills.

During the course of the campaign a blue-ribbon drafting group could be established and charged with the task of producing the specific language of such an amendment.

<u>Summary</u>

The goal of economic policy should be more and better material progress for all Americans, and for their children. It must be future-oriented, optimistic and sound.

The program itself must inspire confidence from the voters, and respect from economic experts.

It must give the people valid hope for their personal economic future.

And it must begin to provide concrete results in 1981, not a decade or two hence.