imprimis
Hillsdale College Hillsdale, Michigan 49242 Vol. 8, No. 7
July 1979

INFLATION: MADE AND MANUFACTURED IN WASHINGTON, D. C.

By William E. Simon

In January, 1973 William E. Simon was appointed Deputy Secretary of the Treasury, where he supervised the Administration's program to improve and restructure U.S. financial institutions. Later that year, he was named Administrator of the Federal Energy Office and assumed the overall responsibility for the government's energy policy during the oil embargo. He was appointed the 63rd Secretary of the Treasury in 1974, where he served as the chief economic spokesman for the Administration. He was also designated Chairman of the East-West Trade Board.

Mr. Simon left the Cabinet in 1977 and became a Senior Consultant with Blyth Eastman Dillon & Company, Inc., consultant to the Allstate Insurance Company, and Senior Advisor at Booz Allen & Hamilton, Inc. He has also joined the Boards of Directors of Citibank and Citicorp, the INA Corporation, the Xerox Corporation, and Dart Industries. He is also Chairman of the International Chamber of Commerce's Extortion and Bribery Committee.

In addition, Mr. Simon serves as President of the John M. Olin Foundation, as a Trustee of Lafayette College, and as Treasurer of the United States Olympic Committee. He has received a number of honorary degrees and awards both in this country and abroad. He is the author of the recent best-seller, A Time for Truth.

Mr. Simon delivered this presentation at Hillsdale for the Ludwig von Mises Lecture Series.

When I was invited to speak at this prestigious forum, I agonized for some time about the topic of my talk, because, as we all recognize, there is much to concern all of us today as we survey both the foreign and domestic scene.

I finally decided that I would speak on the most over-discussed and, in my judgment, least understood issue on the national scene—inflation.

Inflation has been identified in poll after poll as public enemy #1 and yet, perhaps with the cynicism of a fellow who was fortunate enough (and I use that adjective advisedly) to serve our government, I continue to believe that the American people have a love-hate relationship with inflation. They hate inflation but love everything that causes it.

Inflation is defined as a rise in the general level of prices, or, as my favorite economist W. C. Fields once described it, "Inflation has gone up over $1.00 a quart."

At the outset, you should also understand the trepidation with which I approach this subject, because any treatment of this topic requires a journey into economics, and my experience has taught me that as far as most people are concerned Carlyle was right in describing economics as the "dismal science." It seems to bore them even as it shapes their lives. But I prefer Marshall's description that economics is the business of every day life. So at the risk of peering out into an audience with glazed eyes for the next little while, I would like to speak to some of the fundamental causes and effects of this insidious political disease. But one of the most important points I wish to make is, when I speak of the ills of inflation, recession, brought on by all powerful government, I am not speaking of narrow economic issues but of fundamental issues of equity and social stability. The fact throughout history is that whenever government dominates the economic affairs of its citizens, a free society is eroded, then destroyed, and a minority government ensues. What I am saying and the most important point to be derived is that the free enterprise system and a free society are indivisible. It is impossible to have a politically free society unless the major part of its economic resources are operating under the free enterprise system. So the real issue is human freedom (recognizing that the future of the free enterprise system is also the future of a free society). And the question we must ask ourselves in analyzing our situation here in America is, are we going to reverse the trend of the last

im•pri•mis (im-pri-mis) adv. In the first place. Middle English, from Latin in primis, among the first (things). . .

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40 years toward a collectivist society or will we choose to ignore history and suffer the inevitable fate of all those countries throughout history with all the tragic consequences?

But now I would ask you to take a journey with me for a few moments—a journey to a small planet somewhere in the universe, a tiny, closed economy, a backward economy, with no advance technology and no capital formation. This planet has but 10 men on it, and these 10 men live by the fruits of their labor, with only their hands and a few tools, as they work to mine the natural resources. And as we look at life on this planet, the 10 men, through their labor, have produced 10 commodities. And these 10 commodities represent the finite natural resources of this particular planet.

As yet the planet has no recognized medium of exchange, and barter remains the principal means in the expedition of trade. Economic life on our planet continues in this fashion for a period of many hundreds of years. One day, however, a shiny black jet helicopter suddenly appears in a holding pattern directly over the planet. Inside the helicopter sit two central bankers. These men have been observing economic activity on our small planet, and they have decided in their infinite wisdom that expansion is not proceeding quite rapidly enough. So, as if by magic, to grease the wheels of commerce our two central bankers decide to drop 10 units of currency, which promptly descend upon the planet and of course fall into the hands of the 10 men.

So far, very little has changed. Now we have 10 men as well as 10 commodities and the 10 units of currency, which for our purposes we'll describe as dollars. It is assumed of course that each of the 10 men intends to partake of the new medium of exchange, and no one individual is willing to do without the new money. Therefore with 10 dollars and 10 men and 10 commodities, we observe the following relationships. In respect to the 10 dollars, each commodity is now worth one dollar. And in respect to the 10 commodities, each unit of currency is worth one dollar.

Life then proceeds on our planet for a considerable length of time; then one day, the same shiny, black jet helicopter reappears. And, indeed, sitting in the front seat are the same two central bankers. The men have returned because, in their view, economic activity on our planet was still not progressing quite rapidly enough. So again, to further grease the wheels of commerce, the central bankers elect to drop one more unit of currency. Now, we still have the same 10 men, along with their 10 commodities. Nothing else has changed. There have been no wars, no plagues, no pestilence, no lost anchovies off the coast of Peru, no computer breakdowns, no fogged-in airports, no failing crop harvests, no Arab oil embargoes, no shifting demands for money. We do, however, have one extra unit of currency, and because of this change in the supply of money, key economic relationships must shift.

Whereas previously, in relation to the 10 dollars, each commodity was worth one dollar, now, in relation to the 11 dollars, each commodity is valued at $1.10. Thus, the general price level and the general rate of inflation have increased. At the same time, in relation to the 10 commodities representing all the finite resources of this particular planet, each unit of currency finds itself devalued and is now worth but 90 cents. Thus, this simple model would seem to indicate that inflation is everywhere and always a monetary phenomenon, resulting from a government-created imbalance of money supplied in excess of demand. And it is indeed a fact that when the supply of money exceeds the demand for it, with money demand always a function of the finite productive resources of any given economy, inflation is the inevitable outcome. Well a similar story can be told here in the United States, which is obviously a larger and more complex economy than that displayed in our model. We also have monetary imbalance; with money supply growing substantially faster than demand, it is of course no wonder that actual inflation as well as inflation expectations have increased sharply and that the value and the purchasing power of the dollar has declined at exactly the same time.

Now the wisdom of this model has generally eluded policy-makers in recent years, and unfortunately the problem of inflation and related exchange rate shifts is continually perceived in a non-monetary, so-called structural context, ignoring the effects of excess money creation and instead focusing on temporary shocks such as weather, wars, or other exogenous disturbances. Perhaps, however, we would be better advised to take an axiom from none other than Lenin, who wrote years ago: "The best way to destroy the capitalist system is to debase the currency." By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they do not only confiscate, but they confiscate arbitrarily: and while the process impoverishes many, it actually enriches some, and the sight of this arbitrary rearrangement of riches strikes not only at security, but at confidence in the equity of the existing distribution of wealth. Or perhaps we could learn from a somewhat less radical theorist, John Maynard Keynes, who declared in his *General Treatise on Money:* "There is no subtler, or surer means of overturning the existing basis of society than to debase the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which only one man in a million is able to diagnose."

In our organized markets money is the universally acceptable exchange for all commodities. Money provides a store of purchasing power, but when the value of money depreciates, all services derived from it are diminished. Its function as a store of purchasing power therefore declines and its reliability as a medium of exchange is subject to greater uncertainty. Men tend to seek reassurance in the normal order of events, and one of the principal sources of this sought after reassurance is economic balance. And stable money is essential to economic balance, for money is not merely a medium of exchange, but a standard of value. If the meaning of money is destroyed, one of the central physical pillars of civilization is removed, and the balance of man is disturbed. That is why inflation, if acute enough and continued long enough, is always destructive of civilized society, and that's why the promotion of inflation is always the object and objective of our enemies.

At some point in the inflationary process, it is generally believed that this sort of activity reaches epidemic proportions and proceeds at a very rapid pace. Such a reaction could be triggered by the recognition that the cost of holding money, especially that cost related to declining purchasing power, is so great that widespread divestment of money occurs. This of course includes foreign exchange markets, where under the circumstances of high or anticipated inflation the dollar is placed on offer by tens of thousands of rational-minded participants acting in their own economic self-interest and self-defense.

Society as a whole, however, is not able to divest itself of the available stock of money: it can only circulate the existing stock of money at a faster rate. Efforts are made to turn monetary assets into real assets such as art objects, antiques, real estate, gold and other commodities as a means of hedging against the depreciating value of money. But essentially the velocity of money in circulation increases again and again, assuming a life of its own. And as a consequence, inflation changes from a canter to a gallop, practically independent of government policy actions.

The influence of inflation is a subtle influence. Not always obvious at first blush, nonetheless the influence of inflation is all-pervasive, effecting all members of society. For example, listen to the description by author Theodore White, writing of life in China during the late 1930s and the early 1940s under the failing government of Chiang Kai Shek.

> "Inflation is the haunting pestilence of the middle classes. It is the hidden threat that disorganized government always holds over those who try to plan, to save, to invest, to be prudent. To be honest in one's day to day dealings in a runaway inflation does not make sense. To pay debts on time is folly, to borrow and spend as fast as possible is prudence. Every man suspects everyone else. I remember trying to supply my Chinese friends with whatever medicines I could from the U.S. Army supplies —sulpha drugs, quinine, paregoric, atribrine—and then discovering that some of those who pleaded illness were not truly ill but were selling the drugs for the wild paper prices they brought on the open market. So I distrusted everyone who asked for an American medicine, an American tool, an American artifact. What the West calls the desertion of the intellectuals is considered by most historians to be a forerunner of revolution. Unless a government can find learned men to serve it, it cannot serve the people. In China, inflation made it impossible for learned men, honest men, decent men to serve their national government except for unbearable personal cost or self-corruption that revolted them. They sought any alternative—and the only alternative was the Communists. Inflation had made life unreasonable."

Now to some this may seem overly simplistic and we all recognize that the burden of inflation does not rest solely on the shoulders of central bankers as they conduct monetary policy. Inflation at the same time is always a consequence of profligate fiscal policy. Exorbitant rates of government spending, financed by ever-increasing deficits and the issuance of new government bonds, naturally places enormous pressures on the central bank, particularly during times of economic malaise or recovery. We have all learned that increased issuance of government bonds creates financial market pressures, and as interest rates rise, central banks are placed in the practically insoluble dilemma of either purchasing the bonds and thus creating more money, or else tolerating increases in interest rates that may prove politically costly and threaten the very independence of the central bank.

We have, however, relied too much on policies that suggest spend and spend, tax and tax, inflate, inflate. We have in recent years created a set of so-called economic stabilization policies that have produced a plethora of inefficient programs and an explosion in the growth of transfer payments.

In misguided efforts to make better use of underutilized resources, policymakers have become utterly imbued with the notion that it is both proper and necessary to attempt to reduce unemployment through the introduction of significant spending programs designed to stimulate aggregate demand.

It has been long argued that such efforts to manage the economy by increased government spending should seek to engender deficits, since any financing through higher taxes would reduce private purchasing power and frustrate attempts to expand total demand. But by these foolish efforts that attempt to make it appear that there is indeed such a thing as a free lunch, our elected officials have increased government expenditures without attempting a corresponding rise in taxes. As a result, consequent monetary growth and rising price inflation have provided the means of transferring control of resources from private hands to the hands of non-elected bureaucrats who absolutely believe that they know our needs better than we ourselves do.

Behind the misguided and costly notion of economic fine-tuning stands an equally misguided notion that aims to use government as an instrument to redistribute income and wealth. There is, of course, a hallowed tradition in American history that stresses the importance and appreciation of equality before the law, or more plainly, equal opportunity. This principle has long been recognized as vital to a creative society and a free state. But in recent years the principle of equality of opportunity has given way to a new equality, the equality of condition or result. This argues that Federal legislation designed to insure all citizens a place at the same socio-economic starting line is not sufficient. Instead, it has been frequently argued since the 1960s that government policy and laws must be reshaped to insure that all citizens reach the finish line at the same time. This notion of equality of condition or result has received widespread acceptance in many circles, but nowhere has its influence been more profound than in the area of government policymaking.

The United States today is not an FDR-type welfare state, in which those who are reasonably prosperous are asked to lend a hand to the helpless. That was our system once, but it has changed drastically, and nobody has told our citizens. Today our state is simply a redistributionist machine run amok, in which a relatively small group of people keep taking the wealth out of everybody's pockets and redistributing it for a variety of purposes that they alone deem important. (Yes, sadly, we have become so preoccupied with redistributing the wealth that we seem to have forgotten how to create it.) Now, allegedly, this redistribution process serves humanitarian goals. But actually, it simply gives this small group of people the power to run the lives of their countrymen.

So what is actually going on is an attempt to level all people. It is coercive egalitarianism, which is the political curse of the era. It pretends to draw its moral force from the Constitution, which talks of equality, but it is not the equality of the Constitution that is being sought. Constitutional equality means that every man in liberty is entitled to go as far in life as his wit, effort and ability will take him—it was equality of opportunity. Egalitarianism is the precise opposite. It punishes the hard-working and ambitious and rewards those who are not—it seeks equality of results regardless of individual differences. And one of the most serious falsehoods that is being told the American people is that our present system represents the Constitutional vision of equality. They are being duped.

Nor is this merely an economic problem. For if increasing acceptance of the notion of equality of result is predominantly manifested through government decisions in the economic sphere, these economic policy initiatives to redistribute income and wealth raise a number of haunting concerns with respect to individual liberty and political freedom. Relevant here is what Columbia University professor Robert Nisbet presciently described as the "invisible government," "...created in the first instance by legislative and executive decision but rendered in due time largely autonomous, often nearly impervious to the will of elected constitutional bodies. In ways too numerous even to try to list, the invisible government composed of commissions, bureaus, and regulatory agencies of every imaginable kind enters daily into what Tocqueville called 'the minor details of life.'"

So it is critical that policies created to delicately fine-tune aggregate demand be viewed in the light of the theory of equality of results. Through the magic of bond illusion the government, we are told, can manage the economy by increasing spending via deficit finance. To level differences of income and wealth, tax policies are pursued to increase the progressivity of effective tax rate schedules and confiscate from middle and upper income earners a growing percentage of their salaries and wages. The inflationary effect of excessive money growth raises tax rates even more. Then comes the effect of dozens of government programs committed to redistributing the cash extracted from those who are producing to those who are not.

But the 18th century British philosopher Edmund Burke argues that those "who attempt to level, never equalize," and the American economy over the past 10 years provides demonstrable proof in support of this view. It turns out that counter-cyclical spending and economic fine-tuning do not help aggregate demand, but actually contribute to economic decline. The incidence of rising tax rates, made worse by the drift toward higher inflation, reduces after-tax income and penalizes the productive worker. The easy availability of generous transfer payments further erodes work and production incentives, and workers on the margin find it increasingly beneficial to be unemployed rather than employed. The desire of government officials to create regulatory agencies, or expand the scope of existing agencies, serves to further distort the important resource-allocating properties of previously efficient markets for products, labor and capital.

Yes, the failure of demand management policies geared to redistribute income are everywhere in evidence.

Indeed, these government geniuses, these doctors of demand management economics promised us faster growth, more investment, lower unemployment, and reduced inflation. But all evidence indicates contraction with respect to spending, capital, and labor utilization, accompanied by sharply higher inflation. In the name of economic stabilization and income redistribution, government these past many years has produced a constellation of policy prescriptions that have not only yielded the exact reverse of desired outcomes, but have actually left the patient in substantially worse condition than before these doses of economic medicine were applied. The private sector market economy has been rejected in favor of increased government regulation and interference, expanding the wedge between effort and reward, and with ever more impediments to production and commerce.

Now as we all know, variations among individuals, with respect to intelligence, aspirations, aptitude, as well as income and wealth, continue and will always continue to exist. This is the natural order of things, and some degree of socio-economic inequality is always present, no matter what the political economic system. And yet, wrongheaded government efforts to meddle in the affairs of the private citizenry have only served to stifle the entrepreneurial incentives so necessary to a healthy, expanding, job-creating economy. And as a result of these policies we are moving to a near permanent state of economic stagnation. The expectations of the 1960s gave way to the cynicism of the 1970s. We were promised growth, but got contraction instead.

We are all too aware of the overwhelming predisposition of government to intervene in the normal workings of the private market economy and of how this has greatly influenced the principal economic trend of the past 15 years. The result has been diminished growth and rising inflation. The frequency with which bureaucrats and regulators choose to interfere with economic choices made by business firms and household members creates an ever expanding wedge between work and reward for work. The heightened imposition of regulation, for example, diverts vast resources, scarce resources, from productive enterprise to non-productive enterprise. For instance, time better spent by executives in the management of business enterprise is instead diverted toward constant meetings and paper work, newly required to meet the dictates of regulatory agencies, staffed by aggressive and ambitious bureaucrats. The bureaucrat is rewarded by the expansion of power and influence, but the business manager is penalized by the time and profits lost as a result of inadequate attention given to the management of the firm.

And nowhere is the ever expanding government wedge better demonstrated than in the imposition of so-called incomes policies to combat inflation. This intrusion of government in the setting of the market prices prevents firms from accurately reflecting a variety of cost influences, whether it be labor, rent, financing charges, raw materials, or whatever.

As a result, profit margins are squeezed and retained earnings decline. Meanwhile, the incidence of higher inflation, operating through a steeply progressive tax system, serves to increase the tax rates at the same time wage/price guidelines are eroding corporate income. The new regulations and the ever present inflation thus serve as a double whammy, and the result is a substantial decline in after-tax earnings. In this regard, it is of course no secret that corporate profits adjusted for inflation and outmoded accounting practices declined 50% in the decade '65-'75 and retained earnings were a negative 18 billion in 1974. One could call this the great American seed corn banquet.

And as a result of this, firms with declining after-tax income, due to regulatory costs and inflated tax rates, increasingly encounter difficulty in generating sufficient new capital to replace plants and equipment. And the decline in retained earnings compounds the problem. Also damaging is the reduced attractiveness of firms unable to maintain decent after-tax earnings as a percentage of equity. Investors observe the deteriorating credit worthiness of these firms and elect to place capital elsewhere. Firms unable to attract outside capital, unable to generate savings internally, are forced to cut back on production schedules. This, in the aggregate, causes the output of goods and services to grow more slowly. But through all this, monetary growth continues unabated, stimulating demand through the increase of nominal income. Thus, while some government policies serve to further impede production and commerce, depressing capital, production, and output supply, other government policies stimulate demand through the over production of dollars. And, when demand increases and supply falls, prices rise and the general inflation rate grows more rapidly. Now this notion of supply and demand is not particularly new, nor is it particularly radical, but the preponderance of officials in Washington choose to ignore it. So output falls and prices rise; unemployment and inflation increase simultaneously; and economists in Washington scratch their heads in disbelief.

And our tax system utilizing steeply progressive tax rates, created in the hope of leveling income differences and achieving equality of result, works in a similar fashion with respect to individuals. Inflated tax brackets reduce after-tax income, and obviously expand the wedge between work and reward. On the margin, measured in after-tax income, it becomes more beneficial not to work than to work. Individuals begin to moonlight after work for income that is not reported and therefore not taxed. The supply of labor shrinks along with the shrinkage in after-tax income. Without labor there can be no production, and output growth declines. But the rise in unemployment benefits raises the federal deficit, and the issuance of government bonds; and monetary growth expands with the Federal Reserve purchasing the new bonds to prevent interest rates from rising. So again, demand increases while supply falls, and once again the inflation is exacerbated.

The wedge between work and reward is thus caused and exacerbated by government fiscal, monetary, tax and regulatory policies. These policies seek to fine-tune economic growth along a finely calibrated line called a Phillip's Curve, delicately balancing unemployment and inflation. But the feedback of demand management increases the wedge, and chokes off incentives to save, invest, work, and produce. And policies designed to raise growth serve to diminish growth.

Policies geared toward reducing inflation actually make the inflation worse. It is an extraordinary set of circumstances, and it suggests that Washington is more intent on compounding past mistakes than learning from them.

Nor does it seem that economic policymakers have benefited much from the events of recent years. Deficits continue and the Fed appears determined to continue procedures aimed at the behavior of interest rates, rather than at the quantity of bank reserves or the supply of money.

And when the central bank intervenes in the process to fine-tune every jiggle in the federal funds rate, the disciplinary interest rate signal is not displayed, and private credit is left unrestrained. So by foolishly attempting to stabilize interest rates, the authorities are forced to add substantially to the reserve base, thus accommodating credit demand instead of moderating it. The added volume of reserves creates new deposits, thereby fueling the increase in money and credit aggregates. And financial market participants observe rather quickly that the growth in money *begins to exceed the demand* for it and, as in the case of our economic model, in due course the general inflation rate rises while the value of the dollar declines. So ironically, Fed efforts to prevent rising interest rates actually foster an inflationary environment in which rates increase anyway, always far more than would have been the case without Fed intervention.

Indeed, it is not unfair to characterize the Fed as one of the principal economic fine-tuners in government. Moreover, the effort to regulate interest rates represents de facto price controls: in this case, the price of money. The result of all this is that income becomes inflated and tax rates rise, and in consequence, the illusion of more money soon gives way to the reduction of after-tax income and disincentives to work and invest. So the Fed would be far better advised to allow interest rates to seek their own level based on private sector economic forces. Then the authorities would be free to pursue long term goals for the monetary base and money supply, goals that would presumably seek a steady growth in the money supply consistent with the finite productive resources available to the U.S. economy, and stable prices.

But monetary growth in recent years has steadily accelerated, as the Fed has allowed the fastest peace time expansion in our history. And these actions are not lost on foreign exchange market participants who observe the growing imbalance between money supply and money demanded, and proceed to sell dollars to avoid losses in capital and net wealth. Yet at home the effects of inflation serve to erode not only our economic freedom, but our political freedom as well.

Government policymakers would have us believe that the cause of inflation is diffuse, and nearly impossible to contain. And in attempting to shift the burden of proof away from government, senior officials create many new villains; they work to persuade public opinion that the source of the problem is far more complicated than government actions alone. Ungrateful labor leaders, we are told, are constantly driving up wages. Or greedy corporate executives are always seeking excess and obscene profits. Or evil, pernicious financial speculators, working in the background of world markets in cahoots with the Gnomes of Zurich, are responsible for driving the value of the dollar lower. The effect of all this irresponsible obfuscation is to badly divide a nation that is increasingly frustrated over the effects of inflation, and groups are pitted against one another as each segment of society wants a larger piece of the shrinking pie.

And the incidence of tax-flation has resulted in a ten-year pause in U.S. economic growth. Individuals watch prices rise and after-tax income fall, and they fear for their own economic survival. Fingers are pointed as charges are made, all out of a sense of increasing alienation that has resulted from economic malaise.

Inflation changes the rules of the game, and often renders contracts invalid. Political arrangements are often substituted for legal contracts, and such political conventions are subject to change and uncertainty, which further erode trust between men or institutions trying to act in their own self-interest. Good faith bargaining between labor and management becomes practically impossible as rising taxes and prices cause both sides to scramble harder for scarce resources, often creating substantial ill-will where cooperation would be far more productive.

Programs such as incomes policies increasingly provide for political allocation of goods and services, substituting bureaucratic judgment for that of the private marketplace. Government officials tell us inflation is a result of socially conditioned intractability, and often suggest that decisive government action in fiscal and monetary areas would bring major "social costs." But this unwillingness to accept even short run costs in the anti-inflation fight provides a convenient rationalization justifying the extension of political institutions as a replacement for market processes.

Tax policies, incomes policies, regulatory, fiscal and monetary policies all currently stand in the way of a more normal functioning of production and commerce. These policies serve as a barrier to economic growth, and work to confiscate the fruits of our labor. Simultaneously, the bureaucratization and centralization of demand management economic planning robs us of the principal source of our personal liberty: our right to economic freedom and a right to improve our material wealth and our standard of living.

Americans must be given the freedom to innovate, and to do so requires the freedom to engage in economic activities for the purpose of bettering our economic condition. This, in turn, requires a substantial reduction in government interference in every area—taxation, stop and go fine-tuning of demand, rollercoaster money management, and the ever expanding regulatory reflex. The concept favoring the redistribution of goods and status is incompatible with the American dream to accumulate savings and increase material well being.

Government actions in recent years have removed incentives and have caused many to doubt increasingly that the American dream is within reach. Watching the economy stagnate has tended to remove hope and has pushed people toward a desperate sense of working and living simply to survive. What is plainly necessary is a set of policies designed for growth, and such growth has its roots in individual self-interest as it responds to clear incentives, not in benign government wisdom.

People strive to become richer than they were, and this too is part of the American dream. But government has deprived us of this freedom by removing incentives and strangling initiative. In the process of removing our economic freedom it has increasingly eroded our political freedom as well. Fundamental economic and political liberties are being circumscribed by the encroachment of bureaucratic institutions into what was once the private domain, and all in the name of improving economic performance, fighting inflation, and making the poor better off while making the rich less so. Yet the loss of economic freedom will surely lead to a loss of political freedom and liberty—there is a certain historical inevitability to it. Government planners who wish to reshape the economic landscape will soon move to reshape other institutions—social, cultural, religious, and political.

The notion favoring elimination of economic differences, and the political apparatus necessary to enforce it, is mindboggling, but then again, so is the astonishing growth of the federal bureaucracy of the last twenty or so years, all in the name of improvement.

In recent years, and in particular the most recent months, we are also told that the majority of Americans have recognized that government is the problem, not the solution. Yet governmental excesses continue and have engendered a cynicism and mistrust of authority. And a loss of confidence by the people in its government and a loss of credibility undermine confidence in all areas of life, be they economic or non-economic, and this too is not healthy.

We need solutions, and Washington is still the seat of central power in the U.S. I strongly believe that solutions in the years ahead must reduce barriers to production, commerce, and entrepreneurial incentives. We must increase after-tax income to restore necessary incentives, and this can best be done by across-the-board permanent reduction in corporate and personal taxes rates, accompanied by clearly stated limits on growth of government spending. Similarly, we must restore financial market incentives by reducing the intervention role of the Federal Reserve, and redirecting Fed efforts away from interest rate regulations toward improved and more reliable control of the money stock. These broad approaches will, I believe, foster a new era of economic growth, an era that can be expected to substantially reduce economic and political tensions, and to restore the American dream.

There is only one way to generate a public awareness of the issues I have listed and to launch a broad challenge of the assumptions and goals presently underlying our political life. It cannot and will not emerge naturally from the ruling of the intelligentsia, which has no interest in challenging its own assumptions and goals.

What we desperately need in America today is our powerful counter-intelligentsia that will issue this challenge. There are many thousands of authentic intellectuals who are not of the authoritarian breed and do not aspire to dictate the course of the lives of their fellow citizens. There are millions of intelligent people in every profession, every trade, and every craft in the country who have come to distrust both big government and ruling intelligentsia. A powerful counter-intelligentsia can be organized to challenge our ruling "new class" opinion makers—an intelligentsia dedicated consciously to the political value of individual liberty.

Business would do well to take up the cudgel and practice free enterprise, not just preach it. Business must cease the mindless subsidizing of colleges and universities whose departments of economics, government and social science are hostile to free enterprise and whose faculties will not hire scholars whose views are otherwise. Business money must flow away from the media which serve as megaphones for the anti-capitalist opinion, and to media which are either pro-freedom or, if not necessarily pro-business, at least professionally capable of fair, balanced and accurate treatment of pro-capitalist ideas, values and arguments.

Along with all businesses, individuals must stop asking the government for "free goods and service," however desirable and necessary they may seem to be. They aren't free. They are simply extracted from the hide of your neighbors—and can be extracted from you by force. Be prepared to identify any politician who simultaneously demands your "sacrifices" and offers you "free services" for exactly what he is: an egalitarian demagogue. Today we live in a world where 80% of the people live under a tyranny rationalized in terms of alleged benefits to a collectivist construct called the people. Indeed in my judgment the American who chooses to fight for sanctity of the individual and limited government has nothing for which to apologize. And indeed, perhaps the political agenda for the 1980 elections can be substantially rewritten in this fashion.

My, how far we've come. I am described as controversial because I have a passion for individual liberty and limited government. But incredibly, the fact that one must justify intellectually this passion as if it were a bizarre new idea is a clear measure of disasterous change in the United States.

Ladies and gentlemen: It's later than you think.

The irrational, unrealistic fiscal, monetary, tax and regulatory policies of nearly half a century have so damaged our economy that financial collapse is probably within this century unless the trend is quickly reversed.

If collapse does occur, the United States will, in my judgment, simultaneously turn into an economic dictatorship. So many citizens have been trained to see the government as economically omniscient and omnipotent, and to blame all economic ills on "business," that disaster could easily bring popular demand for a takeover of the major means of production by the state. Legal precedent and ideological justification exist. It would take little to accomplish this transition. Therefore, political courage and public wisdom are our only hope for preserving the premier economy of the world, as well as our individual freedoms.

We must make all Americans aware of the fact that the fundamental guiding principles of American life have been reversed, and that we are careening with frightening speed toward socialism and away from individual sovereignty, toward coercive centralized planning and away from free individual choice.

We must generate broad-based support for a plan to reduce the growth of federal spending, to match the growth of the money supply to the true growth of the economy, to reduce taxes and eliminate unnecessary regulation. And we must save our votes for politicians committed to such a plan.

The longer we delay the hard decisions, the less likely we are to succeed. The American people must now decide whether they will sell the liberty that is the envy of the world for the empty promise of the welfare state, or whether they will restrict government to its proper functions: defense of the nation, protection of the helpless from the avaricious, and the creation of an environment for sustained economic growth through sensible fiscal, monetary, tax and regulatory policies.

Yet, let us never forget that *personal and political freedoms are inseparable from economic freedom.* Tell the critics who characterize the fight for liberty as "reactionary" that in the contest of history coercion is clearly reactionary and liberty progressive. Tell them that the twin ideas of human liberty and the free market were born only yesterday. Tell them that allowing millions upon millions of individuals to pursue their material interests, with minimal interference from the state, will unleash an incredible and orderly outpouring of inventiveness and wealth. Tell them that lack of vision threatens to extinguish the brightest light ever to appear in the long night of tyranny and privation that is the history of the human race.

Tell them about America.

Editor, Ronald L. Trowbridge.