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Stop the Battle for Reagan's Soul

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There is intellectual combat going on in Governor Reagan's camp. Some call it a struggle for Reagan's soul. The subtle arguments of the opposing sides make a battle ground of many editorial pages, for it is clear that Governor Reagan may be our next President. But the primary goals of his national policy, and the means to achieve them, are not yet crystal clear. The disputes arise over both national security and economic policy.

The fundamental issue seems to be whether the greater threat to our country comes from abroad or from within. There are essentially two points of view. Both agree that we must restore America's position as a preeminent world power, but they disagree on the source of the primary threat to our insecure position. One group asserts that the most fundamental threat to America today is the decline of the economy and rising unemployment at home. The deterioration of American productivity, the enervation of American enterprise, the disincentives of our tax system, the inordinance of the federal budget and the depreciation of the dollar preoccupy these advisers. In their view, renewed vitality of American capitalism is a precondition for restoring the security of the nation.

The other group argues that threats from the Soviet Union and other foreign enemies constitute the fundamental challenge. In this view the elementary cause of America's decline abroad is defective national leadership at home. The problem lies not so much with our people but with our elites who, during the past decade, have suffered a failure of nerve. The consequences of our moral collapse have been catastrophic.

We now risk Finlandization of Europe, loss of our economic oil life-line in the Persian Gulf and demoralization of our allies in the Middle East, Egypt and Israel. And because of our inferior military position and weak leaders, every vital American interest is threatened by the intimidating policies of an aggressive Soviet imperialism. From this standpoint, it is necessary to change our leaders, chase the fallen elites from power, steel our national nerve, rebuild our fighting forces and assert America's interests abroad. Such a forward foreign policy itself would do much to protect American values at home while upholding and extending Western civilization abroad.

Terms of the Struggle

In economic policy it appears that the struggle for Reagan's soul consists, in part, of a fight between two groups over tax policy. On the one hand, many well-known economists believe that the path to economic stability is lined with sign posts leading directly to reduced government spending and a gradually balanced budget. To reduce the rate of growth of government spending, they plausibly argue, is an indispensable condition of tax rate reduction. Republican leadership, it is argued, must re-establish discipline in America and, in particular, fiscal discipline in the spending habits of Congress.

On the other hand, there is a group of Republican advisers who argue that substantial reduction of personal income-tax rates is of paramount importance. They believe in increasing after-tax rewards for

work—thus leaving the sweat on a worker's brow rather than draining it into the government trough in Washington. They support the Kemp-Roth Bill, a 30% reduction in tax rates over a period of three years. Only thereby, argue these advisers, can we create the incentives to work, to save and to invest, and thereby restore the necessary conditions for economic growth and full employment.

Another dispute is over how to stop the depreciation of the dollar at home and abroad. In a word, how do we end inflation? This is the issue of monetary policy. One group of advisers argues: Let the Federal Reserve System regulate the quantity

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of bank reserves and the money stock so as to provide a steady rate of increase in their supply, say 4% to 6% for M1A or M1B. By establishing a steady, long-run relationship between commercial bank reserves and the supply of money, the rate of inflation may be brought down. These experts say, moreover, that the discretionary authority to manipulate bank reserves through buying and selling government securities, so as to provide a certain quantity of money, should belong to government officials at the Federal Reserve System.

On the other hand, there is another group which argues that the monetary problems of the last 50 years—deflation in the 1930s and inflation in the 1970s—have been caused by the fact that the discretionary management of the money supply has been in the hands of politicians and civil servants (the Federal Reserve Governors). Often they try to achieve conflicting economic and political goals rather than reasonable stability of the price level. These advisers argue that the key to restoring the stability of the dollar is to make the value of the currency subject to the rule of law rather than to the rule of men. To do this, they reason, it is necessary to limit the power of the Federal Reserve Governors, politicians and bureaucrats who make monetary policy.

They assert that the only effective instrumentality for achieving a stable price level over the long run is to make the value of a paper dollar equal by law to the value of a unit of a real commodity. The dollar would be made convertible into a weight of gold, as it was for most of the 200 years of United States history. Gold, unlike paper currencies, has preserved its purchasing power for hundreds of years. As a result, the value of the dollar and the variations in its supply would be stabilized, because the quantity of dollars would be linked by law to the historically stable growth in the long run supply of gold (about 2% per year). Thus would inflation come to an end.

Each of these views is put forth by their advocates as the vital issue. The tax cutters say theirs is the real economic issue; the currency stabilizers say theirs is the fundamental issue; the budget balancers say theirs is the popular and crucial issue. And the national security strategists say making America number one abroad again is the enduring issue. All of them struggle for Governor Reagan's soul.

End Inflation Now

But in reality all four of these views are of a piece. Alone, each is unavailing. If in order to restore incentive we reduce the tax rates on the American people, what do we really achieve as the dollar depreciates and inflation continues? For inflation merely transports all working people into higher and higher progressive tax brackets, even though we may delude ourselves by reducing the tax rates on rising nominal incomes. Therefore in order to give lasting incentive effects to reduced tax rates, we must end inflation now by limiting permanently the excessive expansion of money and credit.

If we reduce the tax rates and also end inflation, the incentives to work and save may be restored; but if we do not gradually balance the budget, the federal government may still come into the market and preempt all the new savings for its deficit spending programs—the very capital which we need to develop new energy sources, create new jobs and rebuild our nation's beleaguered economy.

If we achieve only one or two of the following—(1) a stable currency and an end to inflation; (2) lower tax rates on work, savings, investment and, therefore, increasing employment opportunities; and (3) a gradually balanced budget, thereby releasing capital from the public to the private sector for new job creation—we shall not create all the necessary conditions for stable, long-run economic growth. But only substantial economic growth and full employment will provide the required resources with which (4) to rebuild our national defense in order to secure our vital interests. In the absence of economic growth, we cannot finance a forward foreign policy worthy of the name. And without a national defense capability second to none, we cannot insure our economic interests and opportunities at home and abroad. In truth national security and economic growth are indissolubly joined.

In the interest of our country's future, this struggle for Governor Reagan's soul must cease. Instead, the task before us must be the development of a coherent and comprehensive economic and national security policy, linked together by mutually compatible goals and sustained by the will to achieve them. For in our economic policy at home and in our relations abroad, we must try to achieve all four necessary goals together or we shall not achieve them at all.

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