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How to End Inflation

The budget should be balanced, the Treasury should be refilled, public debt should be reduced, the arrogance of officialdom should be tempered and controlled....

—Marcus Tullius Cicero, 106 B.C.

Inflation is the transcendent issue of our times. Inflation is to our generation what depression was to our parents and grandparents. Inflation, if not stopped, will revolutionize our nation and its social institutions.

There are at least two separate schools of thought about how to end inflation:

First, there are professional policy analysts who believe that overdemanding working people create inflation by spending too much money. President-elect Reagan captured the perversity of this elitist view when he asked why it is inflationary when working people spend money—but not inflationary when the government spends it. In the past, these same analysts have recommended a remedy for inflation: simply reducing the number of working people, i.e., recession and unemployment, in order to reduce or "fine tune" private demands for goods and services.

A true understanding of inflation begins with a second and entirely different view of its causes and origins.

In this view, the correct one, the government causes inflation. Not the oil sheiks, not the oil companies, not greedy labor or avaricious big business. Inflation is a *monetary* and a *financial* disorder, engendered by the federal government. This interpretation explains why working people voted on Nov. 4, 1980, to reduce the size of government, *not* to restrict further the world of work and enterprise.

In this view of inflation, the remedies logically follow from the analysis of the defects. The remedies constitute a coherent economic policy:

1) Reduce as rapidly and humanely as possible the federal budget deficit, especially on current account. Reorganize the government capital account, including federal credit programs, such that government demand for credit is substantially less than the volume of total savings available in the market.

2) Reform the tax structure and restore work incentives in order to encourage the production of new goods, which will help to balance supply and demand conditions and thereby to mitigate inflation. The tax legislation must reduce marginal income tax rates and capital gains rates. Tax reform must abolish the inane distinction between taxes on savings and taxes on wages (so-called "unearned" and earned income). Savings are, in part, stored wages and must be taxed the same way, or savings will evaporate.

3) Renovate the regulatory policy. Decontrol of energy prices would be the symbol of serious intent to sweep away excessive impediments to commerce and economic growth.

4) Encourage the Federal Reserve System to moderate creation of money and credit, such that the supply of new credit is strictly consistent with the demand for credit by producers who need it to create new goods and services during the same market period.

5) Commit, publicly and unequivocally, to a free and open world trading order under American leadership. The indispensable conditions for achieving such an open world order are twofold. At the earliest possible moment, perhaps January 1982, the president should announce his intention to restore a stable dollar to the world by creating a gold-based currency. Second, the president should call for an international monetary conference, to be held in January 1983, to reform the world monetary system, to uphold an open trading system, to contain the rising tide of protectionism.

Each of these five policies is, by itself, necessary. But, alone, each will be unavailing. Therefore, all should be done together, for only together will the new economic policy be sufficient.

The new financial policy to end inflation would rely on the creation of real economic growth and *more jobs*—not on unemployment and reduced demand — in order to produce *more* goods, not less.

In Britain, Prime Minister Margaret Thatcher has chosen instead the course of austerity—restrictive monetary policy, public sector deficits and timid tax policies—along with the painful consequences of unemployment and bankruptcy. What pathos there is in this apostle of the free market, presiding over the disassembling of British industry and almost 9 percent unemployment—the worst level since the Great Depression.

President-elect Reagan can avoid the Thatcher trap. But he must move soon and with profound understanding and conviction about the course to be followed.

There are six months in which to decide and to act. There is a way out of the maze of inflation. But in this particular crisis, the economic stabilization plan must not be characterized, as in past emergencies, by price and wage controls. On the contrary, the new program for economic renewal will deal with the crisis by a *systematic reformation of economic institutions.* Economic recovery must rely upon a reawakened nation, market institutions, free prices, mobile factors of production and a stable currency.

It is true that, in the absence of sound policy, we shall survive this crisis too. It is the lot of businessmen and working people to accommodate and to survive. But to what end? Eight percent unemployment? Twenty percent interest rates permanently? Ten percent inflation rates? Bankruptcy? Wage and price controls?

It cannot be that these are the results we desire. Our goal is an end to inflation. President Reagan was elected to do it—and now he must.

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