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A COURSE FOR ECONOMIC LIBERALS

By
David P. Eastburn, President
Federal Reserve Bank of Philadelphia

As the wave of tax-slashing proposals sweeps the nation, economic liberals find themselves with their backs to the wall. Those of us who would use economic policy consciously to alleviate poverty and economic distress (as good a description of liberal economics as any) see the tide of sentiment moving strongly against us. What course should an economic liberal seek?

First, how to deal with the Proposition 13 syndrome? To the extent that the meat-ax approach to taxes is directed deliberately to cutting public services to the poor and disadvantaged, it is, of course, deplorable. But a case can be made for shrinking the size of government that is perfectly consistent with the liberal view. It is that beyond some point intervention by government can hamper the economy so severely as to slow economic growth. Edward Dennison has calculated, for example, that government regulations have cut deeply into productivity growth during the 1970's. He estimates that in 1975 pollution and safety regulations alone reduced the average growth rate in productivity by about one-fifth. Productivity growth is a key element in maintaining economic growth. And since economic growth has been responsible for most of the remarkable reductions of poverty achieved in the past quarter of a century, it is clear that excessive government intervention can be counterproductive to the objectives of liberal economics. What is "excessive," of course, is a matter of judgment. Mine is that evidence such as Dennison's indicates we are operating in the danger zone.

But the solution is not to apply the meat ax. Surely the process of government has not become so bankrupt that we cannot still confront the many

needs before us and sort out our priorities. Congress has made good progress in recent years in improving the budgetary procedure. There is new awareness in the Executive Branch of the need to overhaul regulations. These are sensible, selective approaches to limiting the scope of government which still can encourage the private sector to grow and yet leave room for directing some of the taxpayer's dollars to meeting social needs.

Perhaps the proposal most deplorable to liberals is the Steiger plan to slash the capital gains tax. If the motive is simply to give a windfall to the already rich, the proposal is, of course, reprehensible. But there can be honest debate about the effect of the capital gains tax on economic growth. The science of economics is not far enough advanced to tell us exactly what the effect of a cut may be, but it certainly is in the direction of encouraging growth.

Similarly, the tendency recently to stress the importance of other kinds of tax relief for investment--liberalized depreciation allowances and the like--can be perfectly consistent with the liberal view. The "trickle-down" theory may be anathema to the social activist, but in the longer run it may further his cause better than a tax policy that always favors the consumer. What we need to do, obviously, is to make a careful tradeoff between the immediate benefit of such tax changes for the well-to-do and the ultimate welfare of the disadvantaged. Evidence of the past quarter of a century is that there is long-run paydirt in policies that encourage investment. They are not inimical to liberal economics.

The real culprit is inflation. I firmly believe the current taxpayer revolt would not exist were it not for the widespread frustration about inflation. It has frequently been observed that the most insidious thing about inflation is that it tears at the fabric of society, and we are now seeing

this happen. The cry throughout the land is "Hey, what about me?" Group is pitted against group; everybody is out to get his; generous impulses are stifled. I have visions of angry hordes of middle-income consumers in California marching from the supermarket to balloting places to vote for Proposition 13.

What all this tells me is that the best way for those of a liberal persuasion to achieve their ends is to join the fight against inflation. Too often in the past liberals have been identified as being concerned with poverty and economic distress, conservatives with inflation. It is not that simple. Economists don't understand as much as they would like about the connections between the two phenomena and they need to keep working at the problem, but the lesson of the real world is that unless we get inflation under control we are not going to have sufficient public support to deal with economic distress.

This line of thought tells me, too, that we can't look for much success in efforts to talk down inflation. Once people come to feel they are on their own, that the only course is to look out for their own interests, appeals to self-sacrifice for the general good are not likely to be heeded. New approaches are needed and should be tried. One that holds promise is the TIP proposal to give tax benefits to businesses with a good record in holding down inflation. Extreme believers in the free market fear that the plan would interfere in its operation. On the contrary, I see the plan as harnessing market forces to fight inflation. Administrative problems are great but probably not insuperable. Liberals should give vigorous support to TIP.

However, this solution at best is sometime in the future and in any case cannot do the whole job. Given this fact, the most fruitful course is to pursue anti-inflationary fiscal and monetary policies--hold down government

spending and keep the money supply from growing too fast. These kinds of actions often are not identified with the traditional liberal economic view, but, I suggest, are the most promising route to the liberal goal. Liberals can join at least one hand with monetary and fiscal conservatives with a clear conscience that they are being true to their economic and social ideals.

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