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WILL NOT MENTION:

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ECONOMIC ISSUES IN 1972: A PERSPECTIVE

Why This Economist is for M. Gov.

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In 1972 the American people have a clear choice between economic purpose and economic drift. The great purpose of the American Revolution was and remains the creation of a society of free and equal men. In the past decades we have lost our direction. This year George McGovern is calling for us to come home again; McGovern is calling for an economic policy that will make the American Dream a reality.

The Lessons of Keynes

The great work that transformed economics into a policy science is Keynes' General Theory. This work was published in 1936.

There are two lessons in Keynes' General Theory. The first is that the economy can be managed so that depressions and serious unemployment do not take place: that is, full employment can be achieved and maintained. The second lesson is that once this is done the major economic policy issues become what type of output is going to be produced and for whom is it going to be produced: Income distribution and the contribution that economics can make to the quality of life are now the economic policy issues.

McGovern's economics are in response to the second lesson; the first lesson is taken for granted. McGovern is calling for two policy thrusts: the benefits from production and the payoffs from economic growth are to be distributed more fairly than in the past, and the quality of life is to be improved as useful public goods replace the waste of ever increasing military expenditures.

It took the Democrats some 25 years to learn and accept the first lesson from Keynes. As a result the Kennedy - Johnson years were uninterrupted by anything that the official score keeper, the National Bureau of Economic Research, could call a recession. However, the Democrats in the 1960's had not as yet learned the second, distribution and quality, lesson from Keynes. As a result the full employment of Kennedy - Johnson was achieved with the help of unfortunate tax changes which mainly benefited the well to do. The quality of life was adversely affected - to say the least - by the engagement in Viet Nam.

#### Nixon's Recession

Aside from my comrade on this platform, Republicans are just naturally slower to learn than Democrats. When the unfortunate succession of Nixon to the presidency took place, the Republican leaders and policy advisors - Mr. Weidenbaum excepted - had not as yet assimilated the first lesson from Keynes. Therefore, while promising to take the inflationary pressure off of prices by a budget that is balanced and an even handed monetary policy, the Republicans succeeded in flinging the country into a full fledged recession; a rather protracted though not deep recession took place during 1970 and 71.

This experiment in "even handedness" was and remains expensive. In 1969 - when Nixon took office - unemployment was 3.5% of the labor force; in 1971 it was 5.9% - some 2.5% difference. A rule of thumb, used by economists to measure the output lost by unemployment, is that 3% of output is lost for every 1% excess of unemployment over full employment. By this rule, 1971's full employment output was some 7.5%, more than \$75 billion, greater than actual output. We the people - but most especially those who experienced this unemployment - paid a high price for the slowness of Republicans to learn.

Unemployment is the cruelest and most regressive form of taxation. It falls most heavily on those least able to pay. Nixon's recession of 70-71 was unnecessary, it was a result of deliberate policy, and it made our poor, poorer.

Finally about a year ago the Republicans seem to have caught onto the first lesson. I believe at some point Mr. Nixon said that he was now a Keynesian.

#### Equity and the Quality of Life

Meanwhile within the Democratic Party, and in the economic policies of Senator McGovern, the second lesson of The General Theory was being assimilated. The McGovern objective is to develop policy instruments which transform the G.N.P. production machine into a more effective instrument for achieving equity in income distribution and for improving the quality of life.

The Republicans of course have no explicit policy toward income distribution and the quality of life. However we can infer their biases from positions taken. Republicans seem wedded to two propositions: Defense expenditures are sacred and the rich must get richer, so that their consumption can increase by 20% per head every five years.

Under Nixon and Laird the Defense budget is sacred, not just at its present level, but as a growing parasitic virus. It is my understanding that current projections call for a defense establishment that costs \$100 billion within a few years. Republicans seem to be Leninists in the way they view the American economy. They seem to believe that wars, preparations for wars, and imperialist ventures are necessary if the American economy is to avoid crises and depressions.

The Republican Governor of Illinois attacked the McGovern defense budget because it will cause a loss of 40,000 jobs in Illinois. In this Republican model military expenditures are a boondoggle, but a good boondoggle. In the Republican view defense

expenditures are to make jobs - and perhaps to take care of favorite firms, such as Lockheed, when they are in trouble. Defense expenditures are not undertaken by Republicans to defend the country against foreign foes.

A rational defense policy could certainly cut the 7% surcharge that defense levies on all output. Rich Japan and rich Germany do not spend 7% of their national income on defense. As an interim goal, I suggest the Military Brass should be rationed to 5% of G.N.P.. This would currently make \$20 billion a year available for useful purposes.

#### Nixon's Idea of Fairness

In the Economic Report of the President for 1970, Nixon's Council of Economic Advisors engaged in an exercise on the "Future National Output and the Claims Upon It." This exercise projected gross national product in 1975 and what would be done with it. The largest single claim upon Gross National Product is private "consumption." Nixon's council assumes that private consumption will grow at 3.25% per capita per year across the board. Nixon's economists, when projecting consumption six years down the pike, blithely assume that it is just as worth while to use scarce resources to increase the personal consumption standard of a representative upper income family (now consuming at a rate in excess of \$15,000 per person per year) by 20% over 6 years as it is to use resources so that the consumption standard of a representative poor or low income family - now consuming at a rate of \$770 per person per year - increases by 20%.

Constraint upon the growth of upper income consumption will enable us to save some 5% of consumption expenditures as projected for 5 years hence; some \$35 billion of resources can be freed by doing this. Thus McGovern's economics will make available some \$130 billion (\$75 billion from the slack in the economy in 1971, \$20 from

defense and \$35 billion from stabilizing the consumption of the rich) of wasted or misallocated resources which can be shifted to public purposes.

Let us look at the distribution of income and consumption, in a very rough and ready way. About 5% of the population lives in families with incomes above \$25,000 per year. This 5% does about 25% of the total private consumption. The bottom 20% of the population in income does about 5% of the private consumption. A representative person in the top 5% consumes at the rate of \$15,420 per year; a representative person in the bottom 20% consumes at the rate of \$771 per year.

I personally believe it very worth while to raise the \$771 as quickly as feasible. I do not believe it is worth very much to raise the affluent from \$15,000 to \$18,000 per year. In Nixon's economics the two are equally worthy. The thrust of McGovern's suggestions on taxation and employment is toward improving the distribution of consumption growth so that the lot of the poor and low income recipients improve relative to that of the opulent and the rich.

#### Policy For Equity

How can the distribution of income be improved? First of all by full employment. Sustained full employment will tend to raise low wages relative to high wages. The Republicans are moving toward redefining full employment so that 5% unemployment rate is labeled full employment. In this way Nixon's sales force will be able to call recessions prosperity. Such high unemployment rate will widen the gap in wages.

Full employment is a 3.5% measured unemployment rate. The policy problem is to achieve and sustain a 3.5% unemployment rate without an inflationary rise in prices and wages. To do this, given the structures of product and labor markets, price, profit, and wage guidelines are necessary. Instead of standing idly by when contracts

for high wage employees that call for 30% to 50% rise in wages over two or three years are negotiated - as Nixon did in 1969 and 1970 - guidelines limiting those wages which are substantially above the median income level to modest 'productivity' increases are necessary when labor markets are fully employed.

Given the cartelized nature of much of industry and the slowness of anti-trust procedures, effective profit and price constraints will have to accompany tight full employment.

However the tight full employment of the past was inefficient from the point of view of income equity and inflation. Demand was pumped in for defense, space, medicine and education. Demand increases started with high income specialists and then trickled down to the lower income workers. The direct employment of the unemployed in public service jobs - an employment program that takes the unemployed as they are and tailor makes jobs to their skills - has a much smaller inflationary bias than programs that first give tax rebates to the rich and then hopes they spend to create employment.

A word about poverty in America. Our poverty is only in part due to low private incomes. A good part is due to the low standard of the income the poor and those of modest income receive from public services in schools, hospitals, public safety, parks, etc. Given the unemployment rate in East St. Louis, in a rational and humane society, East St. Louis should have the safest and cleanest streets and parks, the largest number of teacher's aides per teacher, the greatest number of nurse's aides and orderlies per patient, etc..... But instead of looking at unemployment and under-employment as defects of the system, the Nixon's of this world treat being unemployed as being either sick or evil; hence the demagogue talks about workfare as against welfare.

The second way to affect income distribution - an adjunct to employment policy and controls - is by way of taxation. There is no need to document the complexity and the blatant unfairness of our tax structure. A tax system based primarily on a straight forward progressive income tax is necessary. McGovern's proposals are bargaining chips in the right direction.

McGovern's economic proposals, therefore, by achieving useful employment for all, equity in taxation, and the elimination of waste in defense will truly tend to make all but the tax evader and the inside operators better off. The lot of the poor and those with modest incomes will be improved by substantially increasing their private incomes. The lot of the affluent will be improved by an increase in their public goods incomes. All of us will be able once again to walk the streets in safety.

Furthermore McGovern's policies will halt and reverse the drift toward two nations - a nation of the affluent and a nation of the workers and the poor. Aside from the dangers to liberty inherent in such a split society, it is inconsistent with <sup>human</sup> the American ideal. Economic well being is not truly an end in itself once the most grinding of want is removed. Economic well being is meaningful as a handmaiden to a social vision. McGovern's economic policies are such a handmaiden; they are designed to help achieve "one nation, ... with liberty and justice for all."