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November 1982

I'M ALL FOR FREE ENTERPRISE, BUT...

by Murray L. Weidenbaum

What have we learned about economic policy in the United States during the past year and a half? For me, the most compelling lesson was summed up best by Pogo (that sage comic strip character): "We have met the enemy, and they is us."

Some Lessons of Economic Policymaking

Let me illustrate my point by referring to the battle of the budget. I have lost track of how many of my former friends (I use that term advisedly) in the business community and elsewhere in the private sector came to my office at the Council of Economic Advisers to tell me how strongly they supported the President's program to cut the budget, but.... I quickly learned that BUT is the most important word in the English language. In any event, the serious message always followed the BUT.

"Don't Cut My Program, Cut Theirs"

It is not exactly the economic equivalent of man bites dog for me to tell you that every business group enthusiastically supports cuts in welfare programs, BUT maritime or textile or steel subsidies are different—those programs are essential for economic growth and national prosperity.

Dr. Weidenbaum, Mallinckrodt Distinguished University Professor at Washington University, St. Louis, delivered this speech on September 15, 1982.

Nor should it shock you that farm groups are always enthusiastic about cutting urban programs. BUT farm price supports are a very different matter. Of course, labor groups are very willing to support cuts in farm program spending, or in what they call business subsidies, BUT only so long as the social programs are spared.

In the same way, all of my business (and labor) visitors explained how much they support free trade, BUT.... Of course, everyone wants open markets and free trade overseas. We all know how urgent it is to eliminate "their" barriers to our exports. BUT *our* barriers to their exports—well, that is a very different matter which does not seem to generate much interest over here.

Let me explain all this with a very complicated example—Country A and Country B. Country A is on one side of the ocean, and Country B is on the other. Country B has a big export surplus with Country A, and Country A has a hard time getting its exports accepted into Country B. Sound familiar? Of course, Country B is Japan (big trade surplus) and Country A is the United States (big trade deficit).

But that, unfortunately, is not the end of the story. When we think about it, it turns out that Country B could be the United States and Country A, Western Europe. Yes, over the last decade or more, we have enjoyed a very large trade surplus with the European community, about as big as Japan's surplus with us. And, yes, we have erected a great array of obstacles to their exports to the United States. BUT we generally don't talk about that—BUT they don't hesitate to remind us. The upshot of all this is that the only way to avoid a trade war of the 1930s type is to never forget that healthy world trade really is a two-way street.

My final example of what I call Pogo economics deals with the very basic notion of competition and our strong preference as a nation for depending on the marketplace and not on government controls. Once again, virtually every visitor I had paid the most sincere homage to the essential role of competition in the marketplace, BUT.... Yes, far too frequently, the staunch position against "bail outs" was breached, although always reluctantly, by the plea to acknowledge a very special case, which happened to be the one represented by my visitor.

Unfortunately, those very special cases made up a very long list—the automobile industry, steel producers, timber companies, farmers, savings and loan associations, textile firms, mining industries, energy corporations, exporters, regions affected by imports, defense contractors, airlines and literally, the butcher, the baker and the candlestick maker. Actually, it would have been a much shorter list if I had just enumerated the industries that did not come around for some special help.

To put it in a nutshell, it is not very hard for people like me to go to business audiences and be applauded, or even get a standing ovation, when we talk about the need for economy in government. Nevertheless, it is very disheartening when the same business audience, later, not only drags its heels, but just plain opposes the specific cuts that affect its industry or its locality. And that is not just theory.

Try closing any obsolete government installation. I can predict with 99.9 percent accuracy the reaction in that locality. A solid phalanx of labor people, government officials, and the Chamber of Commerce will bitterly oppose this "blow" to the local economy. They will unite in pointing out how essential that Navy yard or Army base is. Oh, they will tell me, "Sure, we are all for economy and cutbacks, but why pick on us?" Yes, my friends, Pogo economics unfortunately is alive and well. But there are others things that you learn in the government.

"Don't Do Today What You Can Put Off Until Tomorrow"

In the past year and a half, I also learned that a useful motto in the public arena is, "Don't do today what you can put off until tomorrow." I'll be pleased to explain. As I said at the outset, the enemy, they is us.

Let us take the nationwide concern about those triple-digit deficits. I have yet to meet a man, woman or dog who isn't upset about all that red ink and who isn't anxious for the government to "do something" to reduce it. Frankly, that is why I find the interest in a constitutional amendment to require a balanced budget so fascinating.

My concern surely is not one of a liberal who is opposed to restricting the growth of government. Nor am I a constitutional lawyer who is reluctant to "tinker" with the Constitution. Rather, my viewpoint is that of a cynic who infers from all this talk that the burning desire to balance the budget—or even just to reduce those swollen deficits—is an important problem, but one not to be tackled today or even tomorrow.

If I am being too circumspect, let me be blunt. This year we are going to run a triple-digit deficit. Next year we are going to run an even bigger triple-digit deficit—in the neighborhood of $150 billion, and that's a tough neighborhood. And, if we don't take some serious action today, we are likely to run another triple-digit deficit in 1984. But the balanced budget amendment, had it been passed, would not have taken effect in 1983 or 1984 or even 1985, but in 1986 or more likely 1987. It reminds me of the young lady who sternly told her ardent suitor, "If you don't stop kissing me in 20 minutes, I'll slap your face."

A Longer-Term Perspective

Nonetheless, it is reassuring to note that in recent months the tone of the public debate has changed drastically. There is now little discussion of new civilian spending programs. Rather, the attention has shifted to choosing which parts of the budget to cut. This undramatic development is a very favorable omen.

Furthermore, there is a new sense of realism in economic decision making in the private sector today. Companies are becoming more cost-conscious. They are learning once again the advantages of being competitive in an economy in which the federal government does not assuredly come to "bail out" the losers in the marketplace. Employees are learning that their wages, salaries, and fringe benefits are vitally dependent on the future success of their company. Workers are increasingly willing to accept changes in work rules and job practices necessary to ensure their company's future. Taxpayers are beginning to see that reductions in government programs, no matter how painful or unpopular, go hand-in-hand with reductions in tax rates, which are always more welcome.

But the new sense of realism is quite recent. It could readily be reversed if the federal government decides to bail out every loser in the marketplace. Ours, indeed, is a profit-and-loss system. That simple but profound notion generates two key implications.

First of all, profits earned in that marketplace are not "excessive" or "windfall" or "obscene." I am using phrases that politicians and journalists have succumbed to so frequently. Profits are earned; they are a return on the stockholders' investment. They are a reward for taking risks. Moreover, after-tax earnings are the major source of the saving in this economy. And it is saving that generates the funds to invest in the modernized plant and equipment which represent greater competitiveness in world markets and future growth and rising living standards here at home.

But there is another side to this coin. The losses that occur in that marketplace are not a reason for government intervention. Low profitability is not justification for easy credit or high tariffs or other assistance at the expense of consumers and taxpayers. Those bail outs can turn out to be far more expensive than they look. Think about the

implications, in terms of more government control.

Surely, to tighten up on government social spending, in my judgment, is right and fair—and it is an essential part of any successful effort to control the budget. But simultaneously to loosen up on subsidies to various producer interests is clearly unfair, and weakens the support for the other budget cuts. Nor is that kind of simple-minded, pro-business attitude synonymous with, or even compatible with, our genuine love affair with, as the President has put it, "the magic of the marketplace."

For the next several years, however, those triple-digit deficits are going to be a serious barrier to the future growth of the economy. Those deficits will compete for investment funds that otherwise would finance business expansion.

The continuing presence of large budget deficits, high interest rates, high unemployment, and very modest economic growth surely tells us that, in this dynamic and complex economy, economic policy cannot be set on automatic pilot. In my judgment, the long-term health of this economy depends on further tough actions, especially on our getting the budget under control.

There is no guarantee that lower budget deficits will automatically result in lower interest rates or in faster economic growth. Nevertheless, many of the actions that reduce deficits will help to lower interest rates or to spur business expansion, or both. Surely, less government spending means more resources available for the private sector. Similarly, reducing the burdens of regulation means an economy that is more efficient at home and more competitive in world markets.

But we will achieve that healthier economy only if we consistently support tough public policies that reduce the size, and the burden, and the cost of government—with no ifs, ands, or BUTS.