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The Costs of the Santa Claus State

John Maynard Keynes is a perfect illustration of the truth of his own words when he said: "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist."

Keynes is long dead (defunct), but his ideas are still dominant in most of the Western world. One of my Harvard professors had a favorite saying which summed up the Keynesian attitude toward government spending: "It's time to forget about balancing the budget and start budgeting the balance."

The British economist Arthur Shenfield, in a scholarly series of lectures given at Rockford College, traced the course of the intellectually bankrupt ideas on economics that germinated on campuses and finally were enshrined in the capitols of the Western world.

Shenfield uses the term "Santa Claus State" to describe the Welfare State. In its early stages, it is popular with those who think they are getting something for nothing, and with those who like having the government do their charity for them. It is popular with those whose compassion for the poor is matched by their enmity for the rich.

However, the Santa Claus State has fatal defects. Its costs always outrun its expectations. It produces a constantly expanding bureaucracy and ever-increasing deficits, and it mortgages the future with inflation. The way a bureaucrat increases his salary and importance is not by cutting costs or becoming more efficient, but by increasing the problems which his staff tries to tackle and by increasing his staff so that he presides over a larger department.

The Santa Claus State must constantly devise new sources of revenue to fuel its ever-expanding bureaucracy. But how can this be done when the American people are up to their ears carrying a burdensome tax load and hardening their resolve to vote against any politician who increases taxes?

Professor Mack A. Moore of Georgia Institute of Technology may have figured out the spenders' plan of action. He thinks that many apparently unrelated current movements are really promoted as a means of increasing tax revenues.

Take, for example, the legalization of presently proscribed activities such as drugs, gambling, and prostitution. So long as they are illegal, no taxes are paid. Once they become legal, the government gets a tax cut.

A spokesman for a national organization extolled the "billions of dollars" which a commercialized marijuana industry would mean to farmers. A spokesman for the American Civil Liberties Union argued that prostitution should be simply "another legitimate business."

Taxes are generally not paid on illegal abortions. Now abortion is a tremendous money-maker, and of course the government gets its bite on the business. Gambling and lotteries, which have recently opened up in states where they were formerly forbidden, provide a lucrative source of tax revenue.

Professor Moore thinks that one of the major reasons behind the movement to shift homemakers into the labor force is that their taxes will make Social Security solvent. (The fiscal failure of Social Security will not be avoided even by the large tax increases enacted recently.) And if those women are young enough to have small children who must be cared for in government child-care centers, the women will be paying Social Security taxes for decades and a bureaucracy will mushroom to staff the centers.

Is there a way to get off the slide into national bankruptcy that Keynesian economics promotes? One encouraging note of hope appeared in a recent survey made by *U.S. News & World Report*. When asked the question, "who's to blame for inflation?", a whopping 61 percent of Americans blamed "government." Knowing where the problem lies is the first step to its solution.

Crane's Economic Proposals

It's too bad that a lot of Americans get hung up on labels: liberal, conservative, Democratic, Republican, union, management. The economic problems that beset our country today indicate more and more that the meaningful divisions are, as a practical matter, between the producers and the parasites, and, as an ideological matter, between the growth and the no-growth advocates.

The producers are those who work for a living in jobs that turn out useful commodities or services. They are wealth creators. The parasites are those whose paycheck or benefit-check comes from tax money, which means out of the pockets of taxpayer-producers.

The growth advocates design their policies to fos-

ter capital investment and expansion in order to produce more jobs, new wealth, additional energy, technological advances, and consumer products.

The no-growth advocates design their policies to redistribute the wealth we already have by high taxes, an expanding bureaucracy, and inflation. They place a higher value on preserving the environment and wildlife than on people, their jobs, and their standard of living.

A couple of decades of this no-growth nonsense have come home to roost in the steel industry. Hit hard by environmental restrictions, increased government regulations and paperwork, affirmative action compliance, and high taxes which have discouraged plant modernization and expansion in the United States but financed new plants in foreign countries, the steel industry can no longer sell at a price competitive with foreign imports. Thousands of steel workers have been laid off and thousands more steel jobs are waiting for the sword of Damocles to fall.

Representative Philip Crane (R., Il.), one of the most articulate members of Congress, has been meeting with steel workers in Youngstown, Ohio (where 4,200 have been laid off), to do something about the problem. He has developed a three-part package designed to create and save jobs for American workers.

1. The Urban Growth Bill of 1978 aims to increase job opportunities and stability in urban areas. It would encourage job creation through capital investment fostered by reduced corporate taxes, tax credits for employee retention, extra tax credits for urban investment, and a one-year write-off of costs of conforming to federal regulations.

2. The Truth in Regulation Bill of 1978 would require that federal regulations be preceded by economic and environmental cost-benefit analyses to ensure that they don't eliminate jobs or close plants. If the regulation is found to cause unemployment, the proposed regulation would have to be voted on by Congress. As it stands now, federal agencies can issue arbitrary regulations without any regard for how many jobs will be terminated.

3. The Anti-Dumping Enforcement Bill of 1978 is designed to protect American workers against the "dumping" of foreign imports. Dumping means the selling of products below their cost of production. Foreign industries can dump their products in the United States because their plants are subsidized by their own governments or by U.S. foreign aid and loans. This bill will cut in half the timetable on which our government can protect U.S. products and jobs against unfair dumping competition.

American workers don't want government handouts; they want jobs. They have been betrayed by the politicians who voted for massive domestic and foreign giveaways at the cost of galloping inflation and closed factories.

It's time for American workers to realize that their economic salvation lies with forward-looking Congressmen such as Philip Crane whose proposed legislation will promote well-paying jobs through lower taxes, capital expansion, and a major cut in federal spending.

Indexing Income Taxes

Inflation is picking the pockets of Americans at a galloping rate. Workers are earning more dollars but realizing less in real income. Inflation is forcing wives into the labor market and husbands to moonlight with a second job, just to make ends meet.

Most Americans are aware that inflation is caused by government deficits. When the federal government spends more than it receives in tax revenues, it rolls the printing presses and thereby cheapens the value of the dollar. Congressmen like this because the additional tax can be imposed without facing the consequences of voting for a tax increase.

What isn't generally realized is that government makes a double profit out of inflation because it pushes the taxpayer into a higher tax bracket. You not only pay more taxes; you pay a higher rate of taxes. Economically, the taxpayer suffers a loss when this happens, but the government realizes a windfall profit. Not only does the government get more spendable income, but it gets it in a way that avoids those unpleasant, politically-damaging roll-call votes.

Let's take some examples to see how this works. Say your wage in year one is $5,000 on which your tax is $98, so that your real income is $4,902. Five years later, your wage is $7,013 and your taxes have jumped to $404. But inflation has eroded your purchasing power so that, although the dollars in your pocket after taxes have risen 35 percent, your real after-tax income has declined 4 percent.

Suppose your income is $13,000 in year one, on which you paid $1,380 in taxes. Five years later, your income has risen to $18,233 and your taxes have gone up to $2,566. But inflation has eroded your purchasing power so that, although your after-tax income appears to have put 35 percent more dollars in your pocket, your real income after taxes has dropped 4 percent.

If you think you are on a treadmill where you fall farther behind financially with each wage increase, you are. The progressive income tax pushes you into a higher bracket and your taxes increase at a faster rate than your real income. You are spending more and enjoying it less.

Dr. Milton Friedman, Nobel prize winning economist, concludes that, "If your income goes up by 10 percent, your taxes will, on the average, go up by about 15 percent." That is why, he explains, despite several supposed tax cuts in the last decade, Americans paid the same percentage of total personal income taxes in 1976 as in 1966.

The tax cuts passed by Congress were wholly offset by the tax increases caused by inflation. Dr. Friedman uses the word "fraud" to describe the way politicians get their credit for voting tax reductions while we pay higher and higher taxes.

Of course, the best solution for this problem is to cut federal spending. But efforts to do that have not been encouraging. An alternate solution is to adjust the tax rates to compensate for inflation increases, a procedure called "indexing."

This procedure would tie key provisions of the Income Tax Code to the Consumer Price Index. Although your tax would rise when your income rises, you would not pay a greater proportion of your real income to the federal government unless a specific tax increase is voted by Congress.

The concept of indexing is not new. It's the same principle used in fixing automatic pay increases that rise with inflation for all federal employees. Those who live on the taxpayers' money have protected themselves against inflation by indexing. It's time the rest of Americans were protected, too.

Carter Health Insurance

Dr. Peter G. Bourne, the President's Health Assis-

tant for Health Issues, was recently asked how the Carter Administration plans to put National Health Insurance over on the American people knowing it will push Federal payroll taxes even higher than they are today. Dr. Bourne's reply revealed his commitment to the same tactics that the Fabian Socialists have always used: We'll "phase it in over a period of five or more years."

Fabius was the ancient Roman commander who wore out his enemy by a strategy of conducting harassing and delaying operations while avoiding decisive conflicts. That's the way the Fabian Socialists (who adopted his name) grew in strength in Britain for 40 years until 1945 when they were strong enough to take over the government and nationalize medicine and major industries.

Dr. Bourne knows that the American people are in no mood for another mammoth and costly Federal program. But he hopes to inch us into his "universal and comprehensive" (his words) system over a period of time, starting with Federal Catastrophic Insurance.

From all the publicity, you might think that a $50,000 medical bill is very common. One recent survey, however, indicates that only 8/10 of one percent of Americans will have hospital and medical bills over $5,000 in one year, and of those almost 80 percent are Medicare or psychiatric patients.

Private catastrophic coverage which piggy-backs on major medical insurance is very inexpensive. A policy that pays all expenses up to $250,000 with a $10,000 deductible costs a young family of four only $52 a year. The Congress of County Medical Societies estimates that the cost of Catastrophic National Health Insurance run by the Federal Government would be about $370 a year for a family of four.

Medical costs have risen faster than the Consumer Price Index because of much better technology in diagnosis and therapy, extensive wage increases for hospital employees, the tenfold increase in malpractice liability insurance premiums, the 20 percent increase in demand under Medicare and Medicaid, burdensome OSHA requirements, the costs of complying with the regulations of 50 Federal agencies, and the hospitalization costs of the dying patients who used to be taken care of at home.

Good private health care is not cheap, but inferior bureaucratic medicine is much more expensive. Medicare and Medicaid cost more than ten times the originally projected estimates. Zero pricing always escalates the demand. In England the family doctor can spend only three to four minutes with each patient because the hypocondriacs, the lonely, the bored, and the neurotic all have the same right to free care as the truly sick.

Private medical care in America today costs slightly more than $600 per capita. The cost of the medical care provided by the Federal Government for veterans, Indians and soldiers is more than $2,000 per capita. In a private hospital today, the average nursing cost per patient care episode is $218 for acute medical and surgical wards. In Veterans Administration hospitals, the comparable figures are $580 in acute medical wards and $480 in acute surgical wards.

Under National Health Insurance, medical decisions will be made by Federal bureaucrats in Washington and your medical records will be about as private as the telephone book. The high rate of cheaters and defaulters in the welfare system, Supplemental Social Security Income, Medicaid, and the Student College Loan program are only a taste of how the American taxpayers would be ripped off by National Health Insurance.

Under a free system, you can switch doctors or cancel the insurance plan when you are not satisfied. That's the best way to keep medical costs down.

Costs of Regulatory Agencies

A recent article in *Commerce* magazine by two businessmen asks the question, "are regulatory agencies friend or foe?" While it might be assumed that a couple of businessmen would take the position that regulatory agencies are a foe of business, Jay VanAndel and Richard M. Devos, the top officers of Amway Corporation, make a good case that government regulatory agencies are a foe of the consumer, too.

Have you bought a new car lately? General Motors estimates that government paperwork alone adds $200 to the cost of every new automobile it manufactures. That doesn't even count the cost of the government-mandated safety and pollution devices.

Dr. Murray Weidenbaum, director of the Center for American Business at Washington University, says that we are experiencing a "second managerial revolution." The first was years ago when the decision-making power of corporations shifted from the shareholders to the professional managers.

The second revolution in business, according to Dr. Weidenbaum, is a shifting of the corporate decision-making power from the professional managers to government officials, inspectors and regulators. The trouble with this second shift is that it is unaccompanied by economic responsibility.

While corporate managers may not have their life savings invested in the equity of the corporation, they do have a significant stake in the fortunes of their company because of their salaries. However government officials, inspectors and regulators have no economic responsibility to corporate fortunes.

The new decision makers, therefore, have no concern about whether or not a given enterprise makes a profit or suffers a loss. They can make their decisions and issue their orders without a care as to whether investors lose their life savings, companies fail, or hundreds of people are thrown out of work.

All their decision making, supervision, inspection and regulation add up to an increased cost of doing business that drains money away from capital investment and channels it into nonproductive form-filling-out. Perhaps this is one of the reasons why the United States has slipped behind Sweden, Japan, Germany and other highly industrialized countries in productivity.

If increased productivity does not accompany higher wages, then we are simply inflating the dollar instead of increasing our standard of living. Other countries also outrank the United States in new capital investment and return on invested capital.

A good example of how the consumer ends up behind the eight ball when Federal regulators get into the act is the sad story of Tris. Under the authority of the Flammable Fabrics Act, the Department of Commerce in 1971 and again in 1974 decreed stringent standards to guard against the flammability of children's nighties.

The industry warned against potential health hazards involved in imposing such regulations before thoroughly-tested flame retardants were available. But the regulations went into effect anyway, and Tris became the most widely used chemical.

In 1977 the Consumer Product Safety Commission discovered that Tris might cause cancer. So it banned the sale of all children's wearing apparel containing Tris and ordered the producers to "repurchase" all clothing containing Tris from retailers and consumers.

Fortunately this order was mitigated by the courts. If it had remained in force, it would have bankrupted dozens of the some 100 companies that make children's sleepwear and thrown tens of thousands out of work.

The high American standard of living depends on private investment in capital formation. If business is forced to spend its cash to comply with arbitrary, contradictory, and unnecessary government regulations, workers and consumers will be the principal victims.

Teenage Unemployment

The high unemployment rate of black teenagers is one of the most tragic blots on our present economy. In the age group of black youths age 16 to 24, unemployment is over 28 percent. In some urban areas, black youth unemployment is estimated as high as 60 percent.

The large differential between black and white teenage unemployment is a recent phenomenon. In the 1940s and 1950s, the unemployment of black teenagers was not significantly different from white teenagers. Black youth labor force participation was then higher than labor force participation of white youths.

The reason for the difference cannot be that our country is more racially discriminatory in employment and education than several decades ago. Surely the opposite is true.

Several recent studies by economics scholars provide impressive data which show that the real cause is the artificial minimum wage law. Although the studies vary in their numerical estimates, their consensus is that the minimum wage law operates to hurt the very people it is supposed to help.

The strongest supporters of the minimum wage law are the labor unions whose members are unaffected by it because they are already making well over the minimum wage. Among the strongest opponents are 61 percent of academic economists. Although generally supportive of government welfare programs, their analysis of economic data has convinced them of the correlation between minimum wage laws and teenage unemployment.

If wages of $2.30 per hour must be paid no matter who is hired, employers will not hire inexperienced teenagers (particularly high school dropouts) whose productivity is not worth $2.30 an hour. Obviously a minimum wage doesn't do any good for the person who is not paid any wage at all.

The minimum wage law makes it impossible for the unskilled teenager to acquire the initial work experience that teaches the virtues of dependability, self-discipline, and pride in honest work well done. It deprives the teenager of the self-respect that comes from being self-supporting and the maturity that comes from learning to get along with fellow-workers. Job hunting without hope breeds frustration and resentment with the system. Idleness opens up endless opportunities to fill empty hours with alcohol, drugs and crime.

The minimum wage law is especially hurtful to disadvantaged minorities because it deprives them of the opportunity to acquire the initial work experience that can enable them to enter the mainstream of American society. There is no way to calculate the deprivation of the lost years of job experience, essential even for unskilled jobs.

Some will argue that we should not permit employers to exploit those willing to work for less than the minimum wage. But all values cannot be measured by money. The millions of Americans, especially women, who hold volunteer "jobs" prove that the rewards of work are great even when performed without any wage at all.

Black economist Walter E. Williams of Temple University is among the growing voices demanding that the minimum wage law be abolished because of its harmful effect on teenagers in general and black teenagers in particular. Failing that, he calls for amendments to the existing laws in order to provide for a substantial wage differential for persons under age 21.

Professor Williams also recommends a reduction in the wage at which a teenager may leave school. This would enable many youths, to whom high school is nothing more than a day-care center, to begin their working career, and perhaps continue their education later after they have learned its value.

The Flight From the Dollar

The value of our dollar, which has steadily declined during the past 18 years, has been plunging to new depths. In 1960 the dollar was worth 4.60 West German marks. Today it is worth only 2 West German marks. In 1970 the dollar was worth 4.32 Swiss francs. Today it is worth only 1.8 Swiss francs, a decline of 240 percent. These striking drops cannot be blamed on our oil imports. We import about 40 percent of our oil needs. The Germans and Swiss import all their oil.

The Federal Government is entirely to blame for our shocking inflation now running upwards of 9 percent. Every year the Federal Government spends billions more than its income. The Federal Reserve then prints the dollars to pay these deficits, which in turn cause our galloping inflation.

The pressure for more spending comes from the Federal bureaucracy. A majority of Congressmen approve because they are protected from inflation by generous salary increases and retirement benefits.

Government-caused inflation is a cruel tax on our senior citizens. Being retired, they receive no wage increases and are locked into fixed incomes which buy less each year. Wage earners are hurt, too, because inflation shoves them into higher tax brackets.

In the face of the flight from the dollar, the Carter Administration's response is to present the American people with a plan to spend $500 billion in the coming fiscal year. The largest part of this will come from individual income and payroll taxes. The projected deficit for the coming year is $61 billion. The Federal debt amounts to an obligation of $3,291 for every man, woman and child in the United States.

These spending proposals are not only fiscally irresponsible, they are not smart politically. Americans no longer buy the concept that Federal bureaucrats can spend our money better than we can ourselves.

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