The Phyllis Schlafly Report

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What's Happening To Our Economy?

When is the Carter Administration going to stop acting as though the money mess is just one of 20 items on the week's agenda and start treating it like the crisis that it is?

The most serious problem we face today is the debasement of our money by our government. As both a national and an individual problem, it outranks all those other problems that politicians talk about and journalists write about. The dollar has been debased somewhere between 76 and 92 percent since 1940. In the past year, the dollar has dropped 40 percent compared to the Japanese yen and 50 percent compared to the Swiss franc.

The financial pages have been expressing surprise at what has happened to the American dollar. Actually, it would be surprising if it had not experienced a toboggan slide downhill because it is backed by nothing and is continually being cheapened by unconscionable federal deficits.

History books tell us about financial chaos in other lands, such as Germany after World War I. Until recently, Americans have been comfortable in the belief that "it can't happen here." Now we are not so sure. At least one respected money expert is ominously forecasting the total collapse of the dollar. Dr. Franz Pick, author of six books on gold and silver and a contributor to leading financial publications, predicts that "the government will continue to debase the dollar until it is worth about a nickel. Then it will repudiate its debts by exchanging 10 to 20 old dollars for each new dollar."

A Congressional monetary expert summed up the situation by saying, "I don't know any other way to put it than (the dollar) has gone berserk." Such wringing of the hands is small comfort to Americans who see their savings accounts, life insurance assets, pension funds, and Social Security payments fast shrinking in value.

Incredible but true, the value of the money issued by the nations we crushed in World War II and of tiny Switzerland is steadily increasing while our dollar plummets. Meanwhile, prices of domestic goods, especially foodstuffs, continue to soar. Instead of blaming producers for rising costs, our economists should devise a solution for declining dollars.

No one in the President's Cabinet places any blame for the decline in the dollar on the White House policy of requesting huge deficit appropriations from Congress, issuing Treasury bills or bonds to pay for these deficits, and then calling on the Federal Reserve System to print the money to pay for these bills and bonds.

The policies that increase our federal deficits by draining American assets overseas include our annual foreign aid giveaways to more than 115 countries (plus the Panama Canal giveaway and diversion of tolls), paying for the military defense of West Germany and Japan instead of letting them defend themselves, and continuing our dependence on Arab oil by impeding U.S. oil development through taxes and federal controls. For such folly, the American people are now paying twice -- in direct taxes and in the drastic decline of the dollars we are allowed to keep.

The Treasury Department indulges in its own brand of dishonesty by continually encouraging people with only a small amount of savings to buy government bonds. As long as our government follows a policy of deficit spending, government bonds are the worst possible investment. The dollars you receive back are always worth less than the dollars you put out. Dr. Pick reminds us that there is "no example in history where any government has ever repaid its debts in the purchasing power in which the innocent bought its bonds. Government bonds are certificates of guaranteed confiscation."

Unfortunately, most Americans are locked into the U.S. dollar. Salaries, Social Security benefits, pensions, interest from savings accounts and savings and loan associations, and life insurance payments are all made in declining dollars. In other times, small investors could hedge against inflation by transferring their savings into the stock market. But the loss of up to $100 billion in stock values during the "October Massacre" is a timely warning against that. "Real property" is supposedly another hedge against inflation. But the sky-high interest rates are a powerful disincentive to potential home and property buyers.

The prime interest rate has climbed to 11.75 per cent -- more than 40 percent higher than a year ago. The prime rate is the rate charged to the banks' top corporate customers. The rest of us pay more.

David Rockefeller's bank, Chase Manhattan, announced last fall, "The fun and games are over. Unless drastic measures are taken, we think we will have a continued high rate of inflation and depreciation of the dollar." The bank urged Congress and the Carter Administration "to institute massive spending cuts before enacting any broad tax reduction." It's too bad that

Chase Manhattan didn't call "time" on fun and games before it lobbied President Carter and the Senate to give away the $7 billion U.S. asset called the Panama Canal. The planned large increase in Canal tolls could have then been channelled into the U.S. Treasury instead of into the coffers of Panamanian pro-Communists.

Yes, indeed, it is time for the fun and games played by the federal government with our hard-earned dollars to stop.

Confidence In Our Economy

"You never had it so good" was the slogan used when the advocates of large-scale federal control began their redistribution of American wealth through massive domestic spending programs. Despite inflation and taxes, they argued, the average worker was still doing better than before.

That slogan has a hollow ring today. Most Americans know that we are getting poorer, not richer, because of federal spending and controls. The reason is the "leaky bucket." When buckets of money are transferred from taxpayers to non-taxpayers, a goodly amount leaks out to support the bureaucrats carrying the buckets. One out of every six working persons is now employed by federal, state or local governments.

Today there are more than a thousand federal programs to transfer wealth from productive citizens to non-productive ones. Every federal spending program has increased except defense. In 1969 defense took 43.5 percent of the federal budget. By 1976 it had dropped to only 24.8 percent.

This shift from defense to domestic spending was initiated in the late 1960s under a deliberate policy called "reordering priorities." Spending on welfare-related programs has almost quadrupled from $77 billion in 1965 to $286 billion in 1975.

The bite of the Gross National Product taken by government has increased from 12 percent in 1930 to more than 36 percent today. Our federal, state and local government tax bill has increased more than 65 percent in the last ten years. Federal spending has increased almost 400 percent in the last 20 years.

Before 1933 the federal budget was balanced four years out of five. We have balanced the federal budget only one year out of the last 18. Our national debt has increased to more than $600 billion. This figure does not even include the $99 billion owed by independent agencies such as the Export-Import Bank. Nor does it include Social Security obligations.

Building a successful business or economy requires an essential ingredient called Confidence (just like the baking of a cake in a recent television commercial). Unfortunately, many businessmen display an abysmal lack of confidence in the durability of the private enterprise system. The National Industrial Conference Board recently reported that business executives' confidence in the nation's economic future has eroded to a 2½-year low and almost every industry is pessimistic.

Private conversations with many businessmen convince me that many believe that the private enterprise system is merely waging a holding action against the inevitable growth of a near total socialist control of our economy from Washington, D.C. William Simon, former Secretary of the Treasury and author of the new book, *A Time For Truth*, is an outstanding example of a successful businessman who has faith and optimism in the future of our economy so long as it remains free.

Those businessmen who have a negative outlook of our economic future should ponder one shining exception to the present gloomy U.S. economic picture: Our farms are the most efficient in the world. Last year's farm exports set a record of $24 billion. This year's farm exports will break the record again with $26.6 billion. Our current farm export shipments of 105.2 million metric tons is also a new record. Last year's farm export shipments totalled 90.6 million metric tons.

The amazing fact is that fewer people each year are needed to produce these record-breaking farm crops. Two hundred years ago, 80 percent of our population was engaged in agriculture. Today the figure is less than five percent. No wonder Nikita Khrushchev bellowed, "Where have you hidden all the workers?" when he visited a large Iowa farm in 1959, manned by only a father and two sons.

If American farmers can lead the world in productivity and efficiency, American industry can, too.

Government Overregulation

One of the biggest challenges faced by Congress is the public demand for big spending cuts without eroding popular government services. The best place to begin that surgical task is to cut out federal regulations that are unnecessary, stifling to the private enterprise system, and tremendously costly.

Nothing would be more in harmony with the new anti-tax wave so evident in the 1978 elections. Newly elected conservatives represent the growing opinion of American voters that federal regulators often create more problems than they solve, while the taxpayers have to foot the bill regardless of whether the federal program is a success or a failure.

According to Professor Murray Weidenbaum, director of the Center for American Business at Washington University, compliance with federal regulations costs the American taxpayers more than $100 billion a year. That is one fifth of the current federal budget. This cost amounts to $1,750 for every family of four. Current federal regulations increase the cost of a new car by $666 and of a new house by $2,500. Business must pay about $10 billion in new capital spending each year just to comply with government regulations.

The airline industry provides a striking example of how free competition results in better products and better service to the consumers at lower prices. The highly competitive calculator, razor blade, and ballpoint pen industries have repeatedly proved that same lesson, but apparently it has to be re-taught to some people over and over again.

For many years until recently, the Civil Aeronautics Board controlled and set airline fares. The airlines were allowed to compete with each other in food, alcohol, movies, or courtesy, but not in the much more meaningful area of price, which is what most passengers care most about. A heated debate went on about the advisability of such government price-fixing, with the airline executives arguing strenuously for continued regulation, and a coalition of political leaders arguing against regulation.

Finally, federal fare regulations were lifted by the then Civil Aeronautics Board Chairman Alfred Kahn over the strenuous objections of the entire industry, which had predicted financial ruin. The result was

dramatic. The airlines have discovered that, when they lower their prices, they sell more of their services and make more profits.

The airlines have averaged a 20 percent increase in revenue passenger miles and, for the first nine months of 1978, set earnings records. United Airlines, the largest, had more earnings in those nine months than it had ever made before in a full year. These high earnings resulted despite the steep rises in operating costs and the lower discount fares.

President Carter's frequent news-making announcements in foreign affairs cannot obscure the fact that the biggest problem facing most Americans is the decline of our dollar. We see prices going up, but the real problem is that the value of our dollar is going down.

This problem is not going to be solved by more federal controls in the hands of the same people who caused the decline of the dollar by unnecessary federal regulations and extravagant deficit spending. Free competition is always a better solution than price control. The first place to start is the elimination of unnecessary federal regulations.

Bureaucratic Misplaced Efforts

The failure of more than a million persons to pay back nearly $1 billion in college student loans is a national disgrace rivaled only by the failure of federal agencies to collect. The Department of Health, Education and Welfare even found 317 defaulters on its own payroll, including one earning $42,000 a year.

True, the majority of those who receive student loans pay back their debt after graduation. But that's not good enough. No bank could stay open if only the majority of its creditors repaid their loans. No retail store could stay in business if only the majority of its customers paid their bills.

Why hasn't HEW or the Justice Department tracked down the loan defaulters and forced them to pay up? Probably because the bureaucrats are doing busy work like trying to force Brigham Young University to allow male and female students to live together in the same apartments. For several years, the federal bureaucrats waged a battle against Brigham Young University that involved academic freedom, diversity in education, and the maintenance of moral standards. Fortunately, the score so far is BYU, 2, bureaucrats 0.

The first confrontation came over the issue of whether BYU was subject to HEW's control under the Education Amendments of 1972, popularly known as Title IX. The law states that its provisions are applicable to those designated as "recipient institutions," that is, educational institutions which are the recipients of federal funds. BYU has a policy of not accepting federal funds, and therefore denied that HEW has the right to compel conformance with its maze of bureaucratic regulations and red tape. After many months of arguments, HEW finally issued a letter abandoning its efforts to dictate policy to BYU.

One of BYU's policies that the bureaucratic busybodies find objectionable is that male and female students are not permitted to be housed in the same dormitories. However, even for those colleges and universities subject to Title IX, dormitories cannot be required to be sex-integrated because there is a specific exemption for campus living facilities.

However, the federal bureaucrats found a technicality on which to attack BYU from another direction. Since BYU can house only about half its 25,000 students on campus, BYU requires those who live off campus to rent from landlords who house men and women in separate wings or areas. Most students live in apartments with three to five other students.

Operating under the Fair Housing Act, which makes it unlawful to refuse to rent a dwelling to any person because of sex, the Justice Department vigilantes conducted what it called "an extensive, time-consuming and painstaking investigation," and then advanced to avenge the cause of righteousness against discrimination.

When Congress passed the Fair Housing Law, did it really mean to compel private landlords to rent apartments for the joint use of single males and single females? Justice argued that this is what the law says. BYU argued that Congress could not possibly have meant that.

After 14 months of negotiation, BYU and Justice finally signed a seven-page memorandum of agreement. BYU won its right to set the moral standards for its own students. Justice maintains that it must enforce its sex-integration policy on non-students. Landlords will not be able to integrate students and nonstudents, or they will be in violation of one rule or the other.

It's no wonder that HEW can't find time to collect defaulted student loans or find out what happened to the $7 billion that HEW lost or allowed to be stolen in the last fiscal year.

Why Students Want Federal Control

When Opinion Research Corporation of Princeton, New Jersey, conducted a poll of high school graduates, it discovered that 61 percent do not believe in the profit system, 83 percent estimate profits to be 50 percent or more, and 55 percent believe that the government should own all banks, railroads, and steel companies.

When the Roper Public Opinion Research Center conducted a poll of college students, it discovered that 87 percent believe business is too concerned with profits and not enough with public responsibility, 62 percent believe that government should place stricter controls on business, 54 percent favor government's breaking up the big corporations into smaller companies, and 56 percent believe that more government intervention is necessary to protect individuals from so-called "economic abuses" by business.

Students are not born with these ideas, and they have not learned them from practical experience. These fallacies are what they have been taught in the schools, deliberately, systematically, and pervasively.

If you want to have a first-hand look at how this is done, get a copy of the book called *A Working Economy for Americans*, sponsored by the National Education Association and a consortium of environmentalists and others who believe that the federal government can provide the solution to all economic problems. In this book the profit motive is the boogeyman which has brought about "inequalities of wealth and income, inflation, urban blight, pollution, and other problems."

And who is the all-wise, all-good force able to solve these problems? Big Brother in the federal government. According to the NEA book, "private decision-making based on maximizing profits has created problems . . . the private enterprise system is in need of change . . . the government offers the only real potential route for controlling and guiding the corpo-

rate sector . . . so as to meet human needs . . ."

The NEA book urges the federal government to put everyone on the payroll who is out of a job: ". . . the private sector currently is incapable of providing jobs to all who want them. Thus, if people are to work, it is only the public sector which is capable of employing them."

The NEA book adopts the discredited Keynesian dogma of government spending: "While spending increases the government's debt for a short time, such investment in jobs and economic stimulation will mean more income (and less debt) for the government in the future."

This is simply not true. Our government has been engaging in Keynesian-style spending since the 1930s, and the debt is still growing larger. When government puts more people on the payroll, the wages must come out of other taxpayers' pockets.

The NEA book promotes having the federal government (instead of the states) charter corporations, requiring consumer advocates on corporation boards, and breaking up the oil companies and other large corporations. The NEA book urges more federal spending, national health insurance, and an extension of federal control over education.

All these grandiose plans would be financed by increasing the rates of federal income taxes, especially on "the privileged few who . . . can afford *private* schools for their children and pay expensive country club dues to play golf." (emphasis in the original book)

It is too bad our children are taught that Big Government has the solution to our economic problems, because it usually does a worse job at higher cost than private enterprise.

The Need For Profits

"The worst crime against working people is a company that fails to make a profit." John D. Rockefeller? Andrew Carnegie? Wrong. The author of that statement was none other than Samuel Gompers, who headed the American Federation of Labor from 1886 to 1924. The great union leader understood the crucial role of corporate profits in stimulating the investment necessary to create jobs.

Nowadays, business profits carry a less respectable reputation. The false image of the corporate fat cat sucking riches from the sweat of the working man haunts too many public discussions of tax policy and government regulation.

The widespread belief in the myth of exorbitant profits was revealed in a 1975 poll. The average American estimated an average after-tax profit of 34 cents on each sales dollar. The actual figure is about 4 cents. Even the five largest oil firms kept only about 4.5 cents of every sales dollar in 1976. Real business profits (i.e., adjusted for inflation) declined steadily from 1965 to 1970 and have never recovered their 1960s levels.

Federal Reserve Board Chairman G. William Miller, who should know better, last year urged the Carter Administration to consider proposing an "anti-inflation" tax on excess profits as part of a "second stage" of its battle against inflation. He also called for the establishment of "standards for wage and price increases," which Carter has carried out in his program of wage-price "guidelines." Not only are higher corporate taxes and price controls to reduce profits the wrong answer to inflation, but they would only aggravate the equally pressing problem of unemployment, as Gompers understood so well.

Profits are a basic motivation for economic activity. No entrepreneur will bear the high risks of investing in new enterprises unless he can hope for an attractive return on his investment. About half of all new firms fall by the wayside during their first 18 months, and only a third last longer than 3.5 years. In both new and mature firms, profits provide a cushion of internal financing and help to convince outside investors to finance capital needs.

Without the profit incentive to invest, there can be no new jobs, higher wages, growth, or better standard of living. Profits are not wealth taken out of someone else's pockets; profits are wealth created by the two factors that make the U.S. economy the most productive in the world: capital formation and managerial talent.

Congress' vote to reduce the capital-gains tax is a constructive step to improve investment opportunities. Much more, however, remains to be done to reverse the long-term decline of business profits, if investment is to expand significantly. Because of the sluggish rate of capital formation in the United States, less than 18 percent of our Gross National Product goes to investment, as compared to 35 percent in Japan and 26 percent in West Germany.

One villain is the chronically huge federal deficit which, by crowding private borrowers out of the capital markets, diverts resources away from productive investment and fuels more inflation.

Another area where major policy reform is needed is the tax environment for corporations. Former Treasury Secretary William E. Simon, an articulate advocate of private enterprise, recommends (1) an end to the double taxation of business earnings (at the corporate and shareholder levels), (2) a stable investment tax credit (as opposed to the erratic policy we have had since 1962), and (3) revised depreciation guidelines, such as a wider Asset Depreciation Range.

"Our system of taxation bears more heavily on corporations than does the tax system of almost any other major industrial nation," Simon says. Our major trading partners have largely eliminated double taxation on corporate income, and many American businesses complain that U.S. depreciation guidelines place them at a competitive disadvantage with other nations.

The encouragement of profits is clearly in the national interest of all Americans. Congress and the President are better off listening to Simon than to Fed Chairman Miller.

Phyllis Schlafly is the co-author of five books on defense and foreign policy: *Kissinger on the Couch* (1975) and *Ambush at Vladivostok* (1976) covering the Kissinger years, and *The Gravediggers* (1964), *Strike From Space* (1965), and *The Betrayers* (1968) covering the McNamara years. Her first book, *A Choice Not An Echo* (1964), sold three million copies without a single advertisement. Her other books are *Safe Not Sorry* (1967), *Mindszenty the Man* (1972), and *The Power of the Positive Woman* (1977).

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