P.S. to the NEWS
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STOCKMAN'S BOLD NEW PROGRAM

Ronald Reagan's head of the Office of Management and Budget, Rep. Dave Stockman, faces the biggest and most immediate challenge of the new Administration. His goal is to reduce the Misery Index -- the inflation rate plus the unemployment rate plus the interest rate. His problem is that the real Gross National Product is declining at the same time that federal outlays are rising with accelerating momentum.

The federal outlays which increase because of higher inflation include indexed social security and pension benefits, plus price re-estimates of medicare, food assistance, and defense fuel costs. The federal outlays which increase because of higher interest rates include interest on the national debt, student loans, rural housing programs, and FSLIC.

The federal outlays which increase because of higher unemployment include unemployment insurance, trade readjustment assistance, assistance payments, medicaid, food stamps, and federal supplemental unemployment insurance benefits. The increased federal outlays due to general economic conditions include defense department procurement, nondefense procurement, Small Business Administration disaster loans, corps of engineers, EPA sewer construction, and VA construction.

Just as one illustration of how these federal outlays are leaping forward at a frightening rate, the estimates for fiscal year 1981 trade adjustment assistance (to auto workers or others who lose jobs due to imports) exploded within six months from $400 million to $2.5 billion. This effect is what Stockman calls the automatic "coast-to-coast soup line" in the federal budget.

The credibility of our monetary system is eroding rapidly. It is now self-evident -- and widely reported -- that the high-interest-rate policy of the last months of the Carter Administration not only failed to slow down inflation, but actually increased it.

Another accelerating problem is what Stockman calls the "ticking regulatory time bomb," that is, the quantum increase in the "regulatory burden" which will occur during the next two years unless immediate steps are taken. New environmental safety and

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energy compliance costs scheduled for the early 1980s are estimated at $100 billion.

For example, the already battered auto industry will be hit with $10 to $20 billion in additional capital and operating costs in order to comply with federal regulations which have modest to zero social benefits. These new regulations include new or tougher standards on air bags, tail pipes, bumpers, engine emissions, noise, warranties, and compliance procedures and paperwork.

The expectation of high and permanent inflation has killed the long-term bond and equity markets. We must build confidence that inflation will be checked if we are to regenerate a capital spending boom.

Such measures as a hiring freeze and small overall percentage budget cuts cannot make much of a dent in the tremendous economic problems. Vigorous capital spending can come only from tax cuts on the types of income that will go into investments, a dramatic rescission of the oppressive regulatory burden on business, and a restoration of confidence in the future of our economy.

Stockman urges a bold ten percent Kemp-Roth tax cut in 1981 and again in 1982, reduction of the top income tax rate on unearned income to 50 percent, a further reduction in tax rates on capital gains, and a substantial reform of corporate tax write-offs for depreciation.

Finally, Stockman recommends a specific list of items for his "stabilization and recovery program." These include a modest deferral of federal capital investments such as the spending on highways, airports and national parks; a careful pruning of overlap and abuse in food stamps, cash assistance, medicaid, disability, heating and housing assistance, and unemployment compensation; and a cutback of low-priority programs such as NASA, CETA, the Community Development Program, urban parks, impact aid, ACTION, some Energy Department programs, and the arts and humanities.

Stockman's proposals are bold -- but the Misery Index demands bold action. We've suffered long enough at the hands of the Keynesian borrow-and-spend, deficit-and-inflation economists. It's time to give the reins to "supply-side" economists.

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