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The Ford Strategy... ...Political Economics

The fundamental economic problem before the country is the underperformance of the economy. This shortfall means lost jobs, lost profits and lower tax revenues. As President Ford's budget message pointed out in February, if the economy were to be as fully employed in 1976 as it was in 1974, there would be an additional $40 billion in additional tax receipts, assuming no change in tax rates. A vigorous economic recovery would make that figure even higher.

Instead of concentrating on the basic problem of how public policy can help get the economy moving at an optimum level, the President has now cut across that issue with a politically motivated proposal for simultaneous tax and budget cuts. The benefits of the reduction plan are angled toward middle-income and upper-income taxpayers, Mr. Ford's natural political constituency. The accompanying budget cut is designed to appeal to the anti-Government ideology of conservative voters, particularly in the forthcoming Republican primaries where the President may face a formidable challenge from right-winger Ronald Reagan.

As a diversionary maneuver to distract attention from a bleak record of economic mismanagement over the last seven years by the Nixon and Ford Administrations, this tax-and-budget cut proposal has some political usefulness. It has no other discernible merit.

President Ford asserts that his plan, if adopted, would be neutral in its economic effect since higher private spending and investment—with money derived from the tax cut—would cancel out lower public spending and investment. In practice, however, the plan would have a political advantage for Mr. Ford. The tax cuts would go into effect Jan. 1 and begin producing their stimulative economic effect immediately, while the budget cuts, taking place more gradually, would not begin to slow down the economy until late next year—after the November election was safely past.

Viewed as a tax program, the President's recommendations are seriously inequitable. Millions of the nation's poorest families—those with children and incomes under $5,000 a year—would be worse off under the plan than they are now. This is because the President would drop the "earned income credit" that applies only to poor families where someone works and where there are children. This credit is an important innovation, added by Congress to this year's temporary tax reduction law, which deserves to be continued. Moreover, the President's plan would do nothing to close existing tax loopholes that primarily benefit those with high incomes.

As an exercise in Federal budget management, the Ford recommendations are unrealistic and dangerous. He warns that unless his budget ceiling is imposed, the budget in the fiscal year beginning Oct. 1, 1976 may rise $50 billion; but he neglects to mention that, with the price level rising by 10 per cent annually and the nation's population growing, an increase of approximately that size has to be regarded as normal.

The record of the Eisenhower Administration provides perspective on this question. During most of that Administration, prices were stable, no major new social programs were begun and General Eisenhower strove diligently to economize. Yet the Federal budget, calculated on the unified basis now in use, grew inexorably from $68 billion in fiscal 1955 to $92 billion in fiscal 1960.

George Humphrey, then Secretary of the Treasury, used to warn that if Federal spending were not held down, "we will have a depression that will curl your hair." But when unemployment mounted in the closing months of the Eisenhower Administration, the voters rightly recognized that the responsibility rested in the Administration's do-nothing policies and chose John F. Kennedy to "get the country moving again."

Politics aside, the danger of the Ford strategy is that it may impel Congress to pass a somewhat larger permanent tax cut than is desirable in the absence of fundamental tax reform. Renewal of the existing temporary tax cut for another year should provide sufficient stimulus without piling on the additional $11 billion that Mr. Ford recommends. The risk is that if tax rates are lowered unnecessarily now, they will not generate sufficient revenue to balance the budget once prosperity returns. Tax cuts are always popular, and tax increases never are. A truly rounded budget strategy that looked beyond November, 1976, would keep that essential truth in the forefront.