BY MILTON FRIEDMAN

# DEALING WITH DISCONTENT

Inflation, 12 per cent; unemployment, 5.3 per cent; second-quarter economic growth, minus 1.2 per cent. These key statistics describe our current economic troubles. Yet they deal only with symptoms. They do not reveal the fundamental economic problem that President Ford inherits.

That problem is reflected in a very different set of statistics:

- From 1955 to 1965, output per person in the U.S. rose by 20 per cent; real spendable weekly earnings of the average worker rose by 15 per cent.
- From 1965 to the second quarter of 1974, output per person rose by 23 per cent—or by more than in the prior decade—but real spendable weekly earnings did not rise at all; they are today actually lower than they were in 1965.

Herein is the real source of our present discontent.

How can it be that output rose yet real spendable earnings fell? Part of the answer is that an ever-higher fraction of the nation's total goods and services has been diverted from producers to nonproducers—through direct government spending and through governmentally imposed private spending for such things as safety and environmental devices.

Inflation has not caused the diversion; it has simply been one means of achieving it. If producers—the workers who furnish the labor, the managers who coordinate the labor, the investors who provide the tools—have disposed of a declining fraction of total output, some mechanisms must have channeled an increasing fraction into other hands. Explicit taxes were one such mechanism, but legislating higher taxes is not a politically popular pastime. Borrowing from the public is another such mechanism, but that tends to drive up interest rates. Inflation is a third mechanism that no one openly supports yet that political authorities find seductive. It is a hidden tax that no representative or senator needs to vote for. It is collected efficiently, automatically and silently. That is why since time





immemorial it has been resorted to by every sovereign who has sought to command a larger share of his nation's output than his subjects would voluntarily spare him.

We could deal with inflation itself—and should have done so long since—by imposing additional explicit taxes and by borrowing more from the public instead of financing government spending by inflationary creation of money. But that would not touch the major problem that makes the one or the other necessary—the diversion of output from producers to nonproducers, which creates widespread dissatisfaction and, by impairing the incentive to produce, threatens future growth.

## CUT GOVERNMENT SPENDING

President Ford can deal with that major problem in only one fundamental way: by persuading Congress to reduce direct and indirect levies on output.

Reduction of direct levies means a reduction in government spending—a real reduction, not a token reduction, a reduction in this year's spending compared with last year's, not a reduction from a proposed $30 billion increase in the budget to a $25 billion increase. There is ample room for reduction, given the will. Every government program is for a "good" objective, but there is hardly one that gives the taxpayer his money's worth.

Reduction of indirect levies means a reduction in government impositions on private spending. The dollars that private enterprises and individuals are required to spend for environmental and other purposes are no less a drain on output because they come from private pockets than they would be if they came directly from government coffers. "Environment" and "safety" are fine objectives, but they have become sacred cows about which it is almost heresy to ask whether the return justifies the cost.

Another indirect levy is the growing tide of government guarantees of credit and direct loans for housing, producers of beef, badly run railroads, banks and other enterprises. This indirect levy is particularly serious because it encroaches on the limited resources available to add to productive capital. Where will the funds come from to pay for the new equipment that we need to continue the growth in total output?

## NEEDED: STRONG LEADERSHIP

Here is President Ford's challenge. Here too is his opportunity. The public is ahead of its "elected" leaders. It recognizes increasingly that it has been taken to the cleaners, that bigger government is not better government, that there is no magic wand that can produce something for nothing. It is fed up with high explicit taxes. It is fed up also with the hidden tax of inflation. It recognizes that it cannot get rid of these taxes without withdrawal pains. It is ready to bite the bullet. It awaits only strong leadership.