Roger Sandler — Black Star

Reagan Faces The Problem Of Federal SPENDING

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■ THE CRUSHING growth of Big Government has been escalating with a momentum built up over half a century. Within the past twenty years, federal spending has increased sevenfold — from just under $100 billion in 1961 to almost $700 billion today. In the past five years it has doubled.

The federal government is the most fearful monster in the country. And — like some berserk creature from a science-fiction movie — the bigger it gets, the faster it grows!

The numbers tell a frightening story. Ninety percent of the growth in the federal Budget has occurred in the last two decades; and seventy-five percent has taken place in just the past ten years. It wasn't until 1962 that federal spending topped the $100 billion level. Since 1979 — just two years ago — it has shot up by nearly $200 billion! In other words, the federal Budget has grown almost twice as much in the last two years as it did during the first 173 years of our nation's existence!

Clearly, President Reagan has inherited an economy hurtling toward bankruptcy. How could this have happened without our national leaders recognizing the danger and doing something to put a stop to it? That is a very good question. What is not in question is that our leaders not only knew what they were doing but took pains to hide it.

In his book *A Time For Action*, former Treasury Secretary William Simon cites some of the deceptive devices used to hide from the American people the terrible growth in government. "To this end," he writes, "the bureaucrats and their friends in Congress have perfected numerous sleight-of-hand techniques. One of these is the 'consultancy' dodge, used to cover up the tremendous growth in federal employment. As the government expands its role, it simply hires 'consultants' or creates 'independent' corporations and agencies to disburse the dollars and conduct the studies, staffed by people who don't show up on the official manning tables. Count in all these consultants and other invisible federal payrollers and the true number of employees is between 11 and 14 million — rather than the 2.8 million officially acknowledged."

Another favorite means of hiding the growth of federal spending has been to create a spending category for "off-Budget" items, permitting entire agencies to be kept off the official books. One example of this is the Federal Financing Bank. Established in 1973 under the jurisdiction of the Treasury Department, the F.F.B. is the vehicle through which most federal agencies finance programs which involve borrowing from the public. Its supposed purpose was to assist the government's loan-guarantee agencies — but the F.F.B. actually makes direct loans at preferred interest rates. While the deficits from these transactions fuel inflation by increasing the money supply, they are not carried on the official federal deficit figures or estimates. The new Budget Director, David Stockman, has referred to this dubious accounting method as "a classic Budget scam — a laundering device."

The Federal Financing Bank provides an unmetered pipeline of money from the U.S. Treasury to other government agencies and loan programs. These include loan activities of the Department of Agriculture's Rural Electrification and Telephone Revolving Fund; the Tennessee Valley Authority; the notorious Export-Import Bank; and, others. All borrow from the F.F.B. at what it costs the Treasury — and lend at one-eighth of one percent higher. In an editorial commentary in *Barron's*, Robert M. Bleiberg observes:

"Through the legerdemain of government accounting, which would make Ponzi look good, the transfer of agency assets to the FFB somehow counts not as new borrowing, which it is, but as the repayment of outstanding loans, comparable in every way to the genuine sale of such holdings to private investors."

It boils down to a huge off-the-books subsidy program for favored agencies. As Bleiberg states, "Whether in the form of direct loans at 8¾% (Eximbank) or 5%-2% (REA), loan guarantees or other devices, federal credit is a subsidy to someone. Its vast expansion in recent years, through such dubious expedients as

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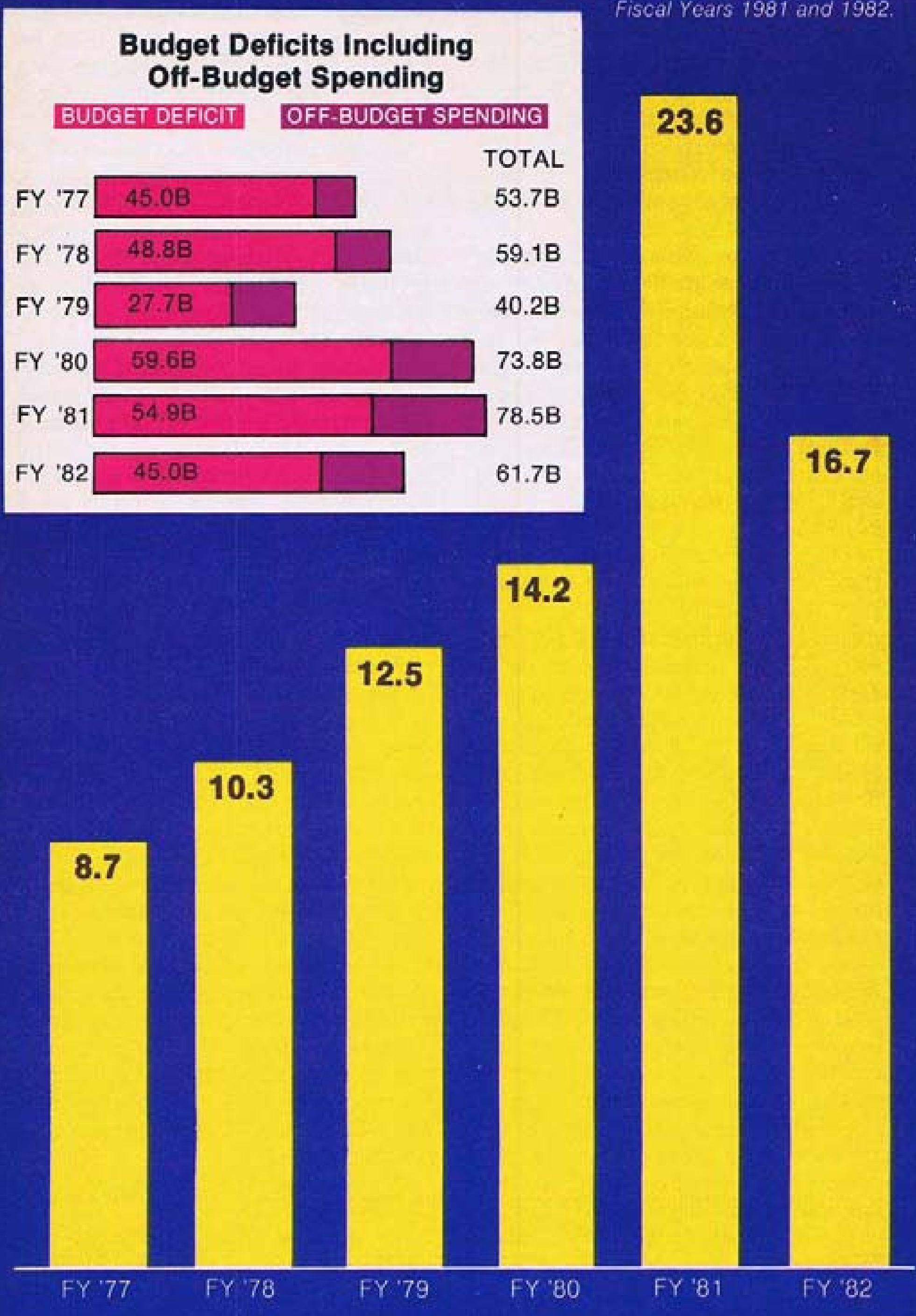
OFF-BUDGET SPENDING

IN BILLIONS OF DOLLARS

Official estimates used for Fiscal Years 1981 and 1982.



FFB advances, which by-pass any vestige of checks and balances, has helped unleash double-digit inflation and double-digit interest rates, weakened to the point of extinction the fragile long-term bond market and threatened to cut off private borrowers from access to funds. National emergency or not, this is a palpably alarming state of affairs which cannot be allowed to continue. The country must regain control of its purse-strings, off-budget and on."

So the so-called "off-Budget" outlays are a dishonest device by which the Washington spenders keep two sets of books in order to call billions in deficit spending something else. Budget Director David Stockman has estimated that the Federal Financing Bank alone will add about $18 billion in "off-Budget" deficit expenditures for this Fiscal Year.

Of course the Federal Financing Bank is only one of the "off-Budget" con games. When similarly rigged transactions of the Postal Service, R.E.A., and other agencies are added to the F.F.B. operations, the total hidden outlays (deficits) are estimated at $23.6 billion for Fiscal 1981. This billion-dollar cheating is financed either through borrowing (which pushes interest rates even higher) or monetary inflation (which pushes up general prices). It raises prices and erodes the value of the dollar while robbing our economy of funds for capital expansion, industrial development, and job creation.

But these official "off-Budget" figures and estimates account only for the subsidized loans to agencies of the federal government; they do not include such other liabilities as government-guaranteed loans to non-government entities (such as Chrysler). William Simon reports that the actual "off-Budget" debt, along with the further liability of government-guaranteed loans, amounted to a grisly $230 billion during the period from 1968 to 1977, and is now running at a staggering $60 billion a year! No wonder interest rates are at double digits and the purchasing power of our dollar is lower than a mole's nose.

Former Treasury Secretary Simon concludes: "As bad as all this sounds, the total government burden on our economy is a lot bigger than the officially acknowledged numbers. Add in so-called off-budget items (including federal loan guarantees and borrowing by government entities) amounting to an estimated $60 billion a year, $120 billion in regulatory costs imposed on the private eonomy and tens of billions of federally mandated outlays by state and local governments, and it is likely that federal activity, right now, is imposing a cost of nearly $1 trillion a year on our economy — out of the nominal GNP of $2.5 trillion. This is pure dead-weight cost on the productive sector of the nation . . . ."

Ronald Reagan and David Stockman have announced plans to phase down many of the loan operations of the F.F.B. and other "off-Budget" scams during the next few years. But it is interesting to note that even though the Reagan Administration insists that it can balance the federal Budget by 1984, its own official estimates for "off-Budget" outlays for that year total more than $9 billion of deficit. So even if Mr. Reagan is entirely successful in getting Congress to go along with his proposals, and even if the official Budget is balanced by 1984, the government will still be operating billions of dollars in the red.

Meanwhile the situation compounds itself.

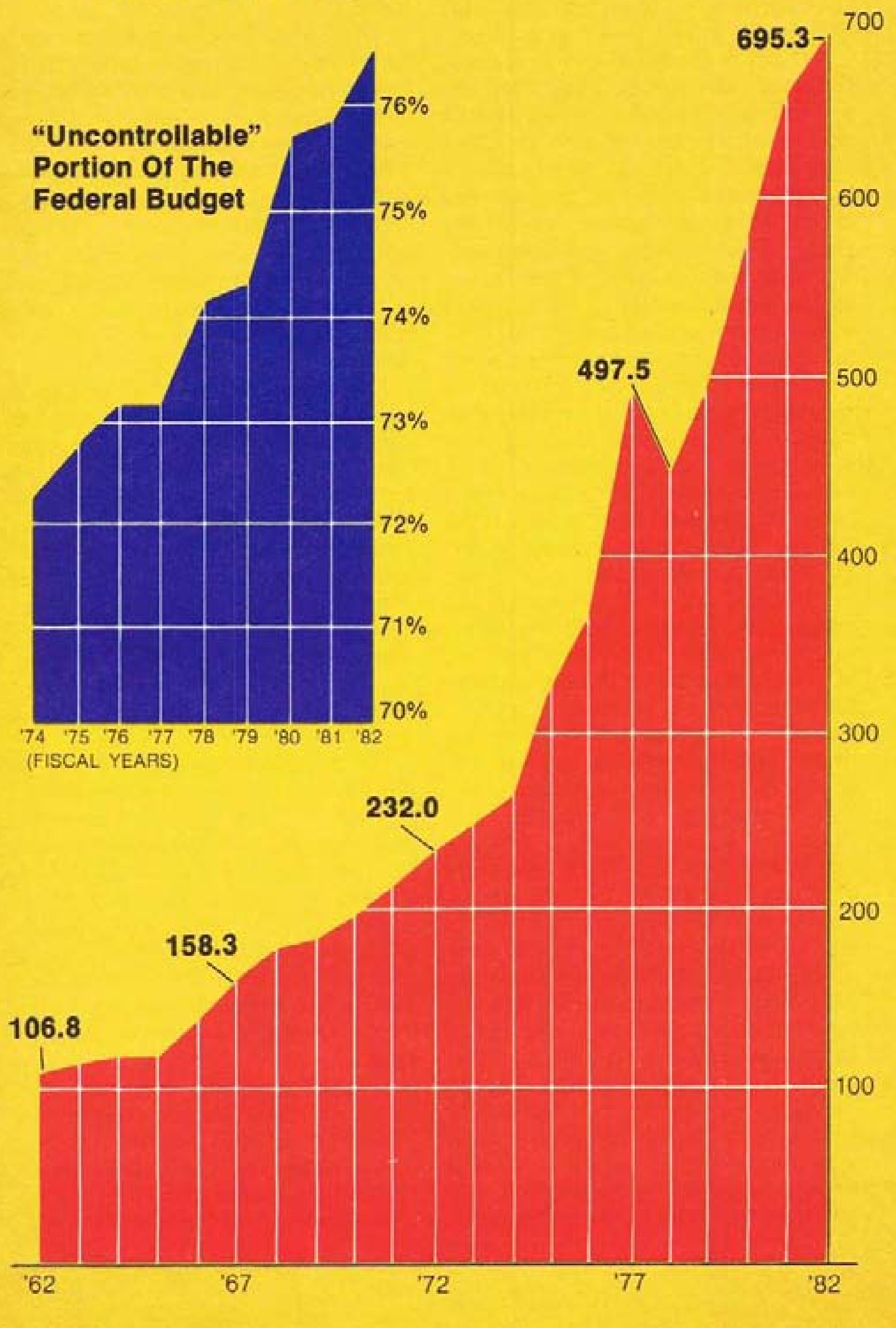
As readers of this magazine are

Charts by Don Eckelkamp — American Opinion

FEDERAL SPENDING

Official estimates used for Fiscal Years 1981 and 1982.

IN BILLIONS OF DOLLARS



well aware, our politicians and bureaucrats have long tried to hide the real extent of their colossal mischief by spending more than they take in as tax revenues — then meeting these deficits by inflating the money supply. That is the usual way it is done. However, as Milton Friedman has pointed out, the link between deficits and inflation is not always so direct and simple. First, deficits can be a *result* of inflation as well as its cause. As we have noted repeatedly, much of government spending is indexed to the Consumer Price Index, which is in turn elevated by increased monetary growth (inflation) in a vicious game of ring around the rosie. Second, deficits are not financed by monetary expansion alone; the government borrows part of the money. Such borrowing is repaid, if at all, with dollars whose purchasing power has been depleted through direct inflation. Hence high interest rates. Dr. Friedman elucidates:

"Deficits are bad primarily because they foster excessive government spending — the chief culprit, in my opinion, in producing both inflation and slow economic growth. If spending is financed by creating money to meet deficits, the link between spending and inflation is direct. If spending is financed by borrowing or taxes, the link is indirect but nonetheless real. Both borrowing and taxes crowd out private spending, absorbing resources that might otherwise be used for private consumption or productive capital investment. One effect is upward pressure on interest rates, and hence, given the Federal Reserve's unfortunate propensity to operate through interest rates, higher monetary growth. In addition, by reducing private incentives to work, save, and engage in productive ventures, and by crowding out private investment, high government spending inhibits economic growth so that any given rate of monetary growth produces a higher rate of inflation [*rise in prices*]."

Until President Reagan's excellent televised speech on February fifth, the government had pointed the accusing finger at almost everybody else — unions demanding wage hikes, businessmen earning profits, middle-class consumers, and Arab sheiks. The object was to divert attention from the fact that government's fiscal policies are to blame. Reagan laid it on the line: Inflation occurs when federal spending results in federal deficits.

The size of these deficits, as we have noted, is faked to fool the people. Indeed, the officially reported "deficit" is only the "cash" deficit by which "on-Budget" spending exceeds revenues for one Fiscal Year. Proper accounting procedures would include not only "off-Budget" expenditures but future debt obligations incurred by the federal government. For example, in the *Los Angeles Times* on January 4, 1981, Victor Simon pointed out that the officially announced federal deficit for 1980 — an horrific $59.6 billion (73.8 billion if "off-Budget" outlays are included) — greatly understates the true increase in federal indebtedness for that year. In fact, according to Simon, who for a year and a half worked on the staff that prepares the Consumer Price Index, "The government finished the year at least $250 billion deeper in the hole than it began — four times the reported figure."

Simon explained that the largest difference between the "cash" and "balance sheet" deficit figures comes from the "unfunded liabilities" of the Social Security program.

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From page six

SPENDING

As we pointed out here in March, the "unfunded liability" of Social Security is the amount by which future benefit and expense commitments exceed expected receipts to cover them. This figure has been estimated in today's dollars to be *$5.6 trillion*!

While some $5.6 trillion in federal liabilities have been hidden, the "Liberal" politicians can't hide it all. With even the official National Debt rushing towards the stratosphere the Congress has been voting to raise the Debt ceiling every few months. It's a grand farce. Former Treasury Secretary William Simon describes the process in *A Time For Action*:

"Still another device is the periodic uproar over raising the debt ceiling — what I used to call, in Congressional testimony on the subject, 'the multi-annual debt ceiling charade.' In this political masquerade, big-spending legislators ponder, study, and declaim against the danger of raising the lid on the national debt — which their own spending votes have made inevitable. After this ritual has been gone through for the benefit of the home folks, of course, the ceiling is always raised."

In January of this year, President Reagan's first legislative request was to have Congress vote to increase the National Debt ceiling by $50 billion to an astronomical $985 billion. Like Presidents before him, who have asked Congress to raise the Debt ceiling an incredible twenty-one times since late 1973, the new President claimed that he had little choice. And Congress will be asked to raise the Debt ceiling again before September thirtieth. This time to a sum in excess of one trillion dollars. Only by refusing to raise that ceiling can Congress stop inflation. To do that it must cut spending and cut it dramatically. But Congress will *never* make the necessary cuts until it has to — and it won't have to until there is enough political pressure to cap that Debt.

When Americanists say *No Trillion Dollar National Debt!* they are saying stop inflation and stop it now.

There are of course other consequences. Just the interest payments to service this mammoth National Debt now constitute the third-largest item on the federal Budget. These annual interest payments have grown from $59.8 billion for Fiscal 1979 to nearly $100 billion for this Fiscal Year, which ends on September thirtieth. This is an increase of $40.2 billion in just the last two years! It is now estimated that this service charge on the National Debt will be at least $110 billion by September 1982.

Our ability to generate fresh capital has been estimated to be somewhere around $100 billion a year — less than the service charge. In short, we are in *deep* trouble. And it is this rendezvous with national bankruptcy that Ronald Reagan is desperately trying to avert through his proposed plan for revitalizing the U.S. economy.

On February eighteenth, President Reagan delivered a dramatic speech to a joint session of Congress in which he outlined his Program for Economic Recovery. In this four-point proposal he urged a detailed list of cuts in the federal Budget for Fiscal 1982, heavy across-the-board tax-rate reductions over the next three years, a "freeze" on many federal regulations, and *hope* for cooperation from the bank-owned Federal Reserve in achieving a consistent and restrained monetary policy.

Using the Carter proposals as a

base, Mr. Reagan outlined reductions in federal outlays in eighty-three government programs. More spending cuts were subsequently added when it was discovered by O.M.B. Director Stockman that the previous figures were off by about $7 billion due to miscalculations inherited from the Carter people. Challenging Congress to forget "politics as usual" and adopt his package in its entirety, Reagan presented his final package on March tenth, adding another $13.8 billion in requested cuts to the $34.8 billion he had previously identified. This comes to a total of $48.6 billion in reductions for Fiscal 1982 and extends the number of federal programs to be trimmed to three hundred from the original eighty-three.

The proposed Budget cuts include a $2.1 billion decrease in funds for the notorious Food Stamp program, $4.47 billion from such make-work schemes as the infamous C.E.T.A. boondoggle, and further billions from various trade adjustment assistance programs and extended unemployment benefits.

Spending on the school lunch program would be trimmed to $2.3 billion, a reduction of $1.6 billion. Subsidies for school lunches would be eliminated for families of four with incomes over $15,630, and about 14 million students from those families would pay higher prices for their lunches. A special federal program providing milk for infants and pregnant women would be reduced, and the number of participants decreased (by raising eligibility criteria) from 2.2 million to 1.5 million.

Expressing his preference for the incentives of the marketplace instead of government subsidies, Reagan also called for a number of reductions in, or eliminations of, subsidies to business and industry. This would include a one-third reduction in the money available to the Export-Import Bank for its low-interest loans to exporting companies. Dairy price supports would not be raised another $1.1 billion as previously planned by the Carter Administration, and this should slow the rise in milk prices. Other federal loans made at artificially low interest rates would be curtailed or reduced.

By shifting part of the Department of Energy's synthetic fuels program to the private sector, Mr. Reagan would save the taxpayers about $3.2 billion out of next year's Budget. His proposal to terminate the Economic Development Administration would save the taxpayers hundreds of millions of dollars in 1982 and perhaps billions more in the next several years. Stressing that the fine arts should be funded voluntarily by private patrons, and not by the federal government, the President also asked for a fifty percent cut (about $85 million) in federal subsidies to the "arts and humanities."

In the area of transportation — a field in which the federal government has no constitutional authority to be involved — Mr. Reagan asked for a decrease of $325 million in Amtrak subsidies. Another $127 million would be saved by his proposal to eliminate federal support for low-volume rail lines and funding which had previously been slated for improvements in the Northeast rail corridor. Ending funds for the government's Conrail operation would save the taxpayers another $300 million. The termination of funds for low-priority highways and parts of the interstate system would net a savings of $244 million. And Reagan would eliminate federal funds now going to the states for the enforcement of the *national* speed limit. This, along with reductions in so-called highway safety grants, would cut another $16 million from the 1982 Budget as proposed by Jimmy Carter.

In the field of housing — another area in which the government has no legitimate business — President Reagan asked for a reduction in the number of (new or rehabilitated) federally subsidized housing units from the 260,000 recommended by the Carter Administration down to 175,000 units. This means the federal bulldozer will be a little less active and the taxpayers will save billions.

In more "controversial" Budget cuts, the White House proposed to trim $691 million from the once sacrosanct Veterans' Administration budget, mainly by holding off on construction of new V.A. hospitals. Reagan would eliminate Social Security benefits to middle-class college students, saving another billion. By ending the guaranteed minimum retirement benefit of $122 per month (regardless of means), the President would cut an additional $1.3 billion from the Budget. He would also squeeze $400 million out of the Disability Insurance program run under the Social Security Administration. His recommendation to eliminate the meager $255 "death payment" for a savings of $200 million was yet another controversial proposal upon which "Liberals" seized as "heartless." Even Medicaid would be reformed to save another $900 million from the proposed 1982 Budget.

By consolidating various urban and community projects under block grants, Reagan and Stockman hope to cut another $12 million in federal spending. Millions more will be saved by reductions in funding to several urban mass-transit boondoggles.

Altogether, if passed by Congress, this package would amount to the largest single cut in the *rate* of federal spending in U.S. history.

As good as all this sounds when contrasted to the Carter spending, we must emphasize — as President Reagan has himself observed — that the Reagan-Stockman program, if enacted, would reduce only the *rate* of growth in government expenditures. It is contended by the Administration that these measures will reduce the rate from over twelve percent in recent years to a spending rate of about 6.1 percent annually.* In other words, even with all these cuts, Reagan's proposed Budget of $695.3 billion in total spending for Fiscal 1982 still represents an increase of about $40 billion (6.1 percent) over the outlays estimated for the current Fiscal Year. And, of course, the deficit for 1982 is still expected to be $45 billion — $61.7 billion counting the off-Budget" deficits. The point is that the government will still be growing and inflating even if this package is approved in its entirety.

Another discouraging word was Reagan's statement that he "has no intention of dismantling the regulatory agencies, especially those necessary to protect the environment and assure the public health and safety." His program for reviewing and rescinding regulations is a good move, but we believe Mr. Reagan could have gone much farther in this area. The Environmental Protection Agency and the Occupational Safety and Health Administration could and should be eliminated — and this would in itself lift a significant burden from the economy.

There are other disappointments. For example, while on the campaign

*In fact, federal expenditures have accelerated sharply since the middle of 1979, increasing at an annualized rate of 18.8 percent. This is almost twice as fast as the growth in the G.N.P. for the same period.

trail President Reagan said that two percent (about $13 billion) could be trimmed from the 1981 Budget by eliminating waste, fraud, and abuse. But his economic plan calls for reductions amounting to only $6.4 billion for this year. And, unless Congress acts quickly, even this savings might not be realized before the Fiscal Year ends on September thirtieth.

Also during the Presidential campaign, Mr. Reagan and his advisors claimed that the Budget could be balanced by the year 1983. He now acknowledges that he will miss this target by at least a year. Even if his entire package gets through Congress intact, the Reagan people project a deficit of $45 billion for 1982 and $23 billion for 1983. And many independent analysts say that these projections are based on unrealistically low rates for price inflation and unemployment. Because about three-fourths of federal spending — the so-called "entitlement" programs — are triggered by increases in the Consumer Price Index and unemployment, higher-than-expected rates will cause the Budget deficits to be much larger than the Reagan Administration is now predicting.

Another broken promise is one Reagan made during the campaign to dismantle the Department of Education and the Department of Energy. He has thus far left them both intact, though it is reported that they are still on his hit list. We shall see.

In a move to help encourage more efficiency in the U.S. Postal Service (the oldest socialist enterprise in America), the President requested a cut of $632 million in its 1982 operating budget. This is a step in the right direction, but Conservatives would also like to see mail delivery liberated from its present federal monopoly so that private companies might compete in carrying first-class letters — just as U.P.S. does so effectively in package delivery.

Also to his credit, Mr. Reagan has already lifted price controls on oil and will eliminate the Economic Regulatory Administration of the Department of Energy. But he has put off deregulation of natural gas. The longer this is postponed, the harder the readjustment will be when it comes. As unpopular as deregulation of energy is in some circles, it is essential if we are to end the government-created "energy crisis."

And of course we all applaud President Reagan's imposition of new ceilings on federal hiring, which will reduce the number of people in federal jobs by 37,000 before the end of 1982 at a savings of $1.3 billion. This is, however, a very modest reduction in the federal work force and more must be done to remove bureaucrats from the public trough and put them to work at useful jobs in private industry.

Nor should we ignore the fact that, despite cuts in most other areas of government, President Reagan is calling for an increase in defense spending which will bring the Pentagon's budget up to $222 billion for Fiscal 1982 — some $37.5 billion more than was budgeted by the outgoing Carter Administration for next year. Even that is only the first stage in a needed buildup of American military strength. Reagan plans to spend over $1.5 trillion on defense in the next five years — about $200 billion more than planned by the Carter Administration. By 1983, military expenditures are expected to reach $250 billion — up eighty-eight percent in four years. This is, by far, the largest peacetime increase in the defense budget in U.S. history.

What this means is that much of the Reagan Budget-cutting that we have been discussing actually represents a transfer of funding from non-defense programs to defense — and while these increased military outlays may be necessary to safeguard U.S. security, they come at precisely the wrong time in our nation's fight for fiscal restraint.

In any case, what Conservatives must bear in mind is that reducing government to its proper size and role is a political process that can only be achieved if there is sufficient understanding among the public to keep pressure on Congress in support of crucially needed but painful cuts. Without sufficient understanding among the people, any real attempt at reform is likely to backfire badly. Budget Director David Stockman is worried about this, noting that America has grown used to the idea that government is "a coast-to-coast soup line" drawing on an infinite broth guaranteed to fulfill our every need and want.

And even with widespread consensus that federal Budget-cutting is a desirable thing, the Congress is being pulled at by a myriad special-interest groups and coalitions. Thousands of pressure groups — including N.E.A. educrats, union bosses, black caucuses, subsidized industries, urban bureaucrats, and assorted self-appointed spokesmen for the poor — are mobilizing against the planned reductions in the federal Budget. Although about fifty-five hundred people are registered with Congress as lobbyists, at least ten thousand are estimated to be involved full time in influencing our nation's lawmakers. Many of the representatives of trade associations and corporate interests have established close ties to heads of their respective regulatory agencies and to powerful Committee Chairmen. When Budget-cutting is mentioned, they descend upon the Capitol to plead with the people holding the purse strings. A lot of money is involved — well over one billion dollars annually is spent in the lobbying process. That buys big influence.

So what will the Reagan Budget look like after it has been ground through the Congress? Who knows? As Governor Ronald Reagan remarked over a decade ago, "I sometimes wonder what the Ten Commandments would have looked like if Moses had run them through a Democratic legislature."

While we do not think the Reagan Plan cuts nearly deep enough, we support its passage and hope it works — but we are gravely pessimistic. In our opinion it is the classic case of too little and too late. Another trouble is that the immediate impact of Mr. Reagan's election and policy recommendations has been to convince many people that our worries are over, that inflation will soon be licked, and that we are on the road to a sound economy. Gold prices are the lowest they've been in over a year, even though U.S.-Soviet tensions are increasing. Is this confidence in Reagan's ability to save us from runaway inflation justified?

Jim Blanchard, chairman of the National Committee for Monetary Reform, is one who doesn't think so. Writing in the March issue of his *Gold Newsletter*, Blanchard warns against optimism, declaring:

"The important thing to remember is that Reagan's anti-inflation measures have been generally more dramatic than many anticipated. This has created a general disinflationary psychology which could well continue throughout most of the year. However, at some point this year, it will become more and more clear to major market operators that what Reagan has really done is *slow the rate of growth* in government spending and he has not solved the fundamental inflation problem."

Blanchard goes on to explain why he thinks the dollar will continue to depreciate, concluding: "I am convinced that the gradual approach will not work, and that a promised balanced budget by 1984 is nowhere near radical enough to solve the fundamental problem. What's more, the measures that would be necessary to get inflation under control would, by definition, mean a classic deflationary depression which, *if* handled properly (with non-government intervention), would allow the economy to purge itself of the excesses of the past 30 years. The trouble is, I do not believe the American people are willing to go through that sort of 'sacrifice.' It would mean massive bankruptcies, business closures, unemployment of 15% to 20%, and all of the social welfare problems that such an economic dislocation implies. Republicans would be thrown out of office and the Kennedy wing of the Democratic Party would come riding in on their interventionist white horse. Then we really would be off to runaway inflation.

"So, as I see it, the scenario is as follows: Reagan tries very sincerely to gradually bring government spending under control and end inflation. He succeeds moderately (bringing the rate of growth in government spending down somewhat), but a fundamental shift in policy will not be enacted and the Reagan Administration will become, by the sheer weight of the past 30 years, the biggest spender in American history."

Blanchard is not alone in this assessment. In a recent interview, Free Market economist Henry Hazlitt was asked if he was optimistic about the new Administration turning our economic problems around. He replied, "I'm optimistic about the turn of thought that elected Ronald Reagan, a Republican Senate, and more Republicans and conservatives to the House. But if you ask me whether I'm optimistic about the immediate future, I would have to raise a big question mark. Nobody in the new administration seems quite to realize how great the reform must be and how great the courage must be to balance the budget and stop inflation. The outlook for the present is continued inflation, most likely at an accelerated rate. This, I suppose, is fundamentally a pessimistic outlook. It's hard to know when Washington will turn the situation around."

In fact, Mr. Hazlitt does not think the government *will* "turn the situation around," observing: "I do not think that government will control the amount of currency once it has the power to increase the money supply without a penalty. Government cannot be depended upon to limit the money supply. I don't think there's a case on record of any government that maintained an unexpanding inconvertible paper money that didn't chronically inflate."

Doug Casey, author of the best-selling book *Crisis Investing*, is even more pessimistic, saying: "I think that there are two major scenarios possible. One is that we will have totalitarian rule. The problems of the economy are going to get much, much worse in the 1980's. Ronald Reagan is not going to be able to kiss it and make it better. Ronald Reagan doesn't even understand the problem. In many ways, Ronald Reagan is going to be a Richard Nixon look-alike. He mouths the free-market rhetoric that Nixon did, but his basic understanding of, and his commitment to, the free market is little more than Nixon's. The problems are going to get very bad, and Reagan will be looked upon as the

'Hoover of the Eighties.' That will be just in time for someone to sell himself as the 'Roosevelt of 1984.' I think that is a likely scenario."

The other alternative offered by Casey is that by 1984 people will abandon politics as a major means of solving social and economic problems, stop paying taxes, boycott the government's paper money, and use gold and silver coins instead. This, he admits, is a very slim possibility and probably over-optimistic about the general level of economic understanding among the American people. Casey sees us heading into an absolutely crushing and probably inflationary depression, wryly observing that the 1980s will be the most "interesting" time of the past few centuries. He foresees great political, economic, and social instability, emphasizing again that "Four years of a middle-of-the-road guy like Ronald Reagan aren't going to result in many changes" on a fundamental level.

Yet another would-be Cassandra is libertarian economist Murray N. Rothbard, who recently wrote in "An Open Letter to President Reagan":

"I very much fear that what will happen is precisely what is happening to Mrs. Thatcher in Great Britain. You come into office pledging to take America back — or rather forward — to free markets, hard money, and minimal government. You do nothing of the kind, instead taking the easy road of 'political feasibility.' And yet your enemies accuse you of putting that very 'radical' program into effect. But when nothing has improved, sir, as is inevitable with a nothing program, when inflation and Big Government have proceeded on their merry way, your enemies will not only blame you; they will be eager to blame free-market, hard-money economics. *Sound free market economics may well be discredited forever as the result of your putting it into practice in name only, and the way will then be paved for total socialism.* I know that that is the last thing you want, sir, so I urge you in the name of freedom and free enterprise, of prosperity and growth without inflation, to abandon the lure of short-term political success and to return to the harder but more vital and satisfying path of truth and justice."

As we pointed out in the January issue of AMERICAN OPINION, our economic problem is far greater than is generally realized and fundamental changes must be made before inflation can be halted. We outlined some of the basic reforms that would have to take place: a slashing of the federal Budget by at least $100 billion for the first year, and more in succeeding years; a stabilization of the money supply by establishing a gold standard and abolishing the Federal Reserve to sever the link between monetary expansion and the fiscal policies of government; and, serious deregulation of American business, with special emphasis on freeing our energy industry from controls and regulations. If all of these measures were at the heart of a Reagan program we would be on our way to cutting government down to its proper size, reducing taxes significantly, and moving toward a prosperous economy. Alas, they aren't. ■ ■

CRACKER BARREL

■ The Russians have posted a $4 million bounty for the first pilot to deliver one of our F-4 Phantom fighters.

■ It was Herbert Spencer who said: "Education has for its object the formation of character."