BOOKS

Inflating Taxation

Is Inflation Ending?
Are You Ready?
By A. Gary Shilling and Kiril Sokoloff
New York: McGraw-Hill.
1983. 256 pp. $17.95.

Reviewed by Tom Bethell

To answer the coy question in the title of their book, Gary Shilling and Kiril Sokoloff respond that, yes, inflation is ending...probably. I think they are right (probably), for reasons I have discussed in REASON (Viewpoint, May and August 1983). Nevertheless, there is much to disagree with in this book. Explorers may come out at the right place, but it does not follow that their map reading was impeccable en route.

The authors' main point, really, is that the principal cause of inflation is government spending. This is controversial, but in a very broad sense it is at least approximately true. Further, the authors are right to suggest that the electorate would like to bring spending under control; are fed up with politicians; think "balancing the budget" means cutting spending, not raising taxes; don't think government solutions work any more; and collectively are more worried about inflation than about unemployment.

(This last point was reaffirmed by Margaret Thatcher's impressive reelection in Britain last June in the face of high unemployment, at a time of declining inflation. The news media have been particularly remiss in trying to convince us that unemployment is more threatening to incumbent politicians than it really is.)

All these things I can assent to. Nevertheless, there is a stubborn, contradictory fact, which logically should have played havoc with the Shilling-Sokoloff thesis. President Reagan, elected to bring government under control, has not really succeeded at all. Government spending as a percentage of the gross national product (GNP) is now 25 percent, up from 22.5 percent when he was elected. In 1981 federal spending for fiscal '84 was projected at $758 billion. Now, two years later, we can see that it is going to be $100 billion higher than that, even though inflation has declined in the interim. Also, reductions in income tax rates have been offset at all income levels by bracket creep and Social Security tax hikes. A massive Social Security tax increase is taking effect on January 1.

In the face of this, anyone who believes, as the authors do, that "we can at least look forward to a reduction in the government's share of the economic pie as the private sector grows faster than government spending" is an optimist. Nevertheless, inflation *has* come down and may stay down. Why? An important reason, as the authors say, is that lenders were fooled by inflation for quite a while but are no longer. They now demand and receive a rate of interest that is higher than inflation. Real interest rates, the authors add, "will be kept high by uncertainty on the part of lenders....When a structural shift like this takes place, it takes some time to change it." True. And high real interest will prevent the inflation bird from getting off the ground.

Now, what about government spending? The crucial variable is not the magnitude of *resources* successfully captured by the government but the magnitude of general *discouragement* accompanying such capture. The authors never quite seem to grasp this. Government spending does *not* provide us with a true reading of the burden of government, although on average it may often reflect it. Very high tax rates, as in Bangladesh, can collect low revenues, and such governments can falsely appear to be imposing a small burden on the economy.

The authors write: "The federal government transferred purchasing power from the private sector to itself by putting excess demand in the economy, which was manifested by inflation. Then Washington paid for this rising spending by squeezing out of the private sector the expanded tax revenues that resulted from inflation."

I would have rewritten this: "The federal government transfers purchasing power from the private sector to itself by threatening to put people in jail if they don't pay up. If the government then tries to take too much money, people get discouraged and stop working. Fewer things are made, and those that are made cost more. Furthermore, if you believe Keynes's 'balanced-budget-multiplier' argument, you can also say that the transfer of resources from rich people's savings accounts to poor people's checking accounts increases aggregate demand—which can be inflationary."

In short, it is high *taxation* that is inflationary, not (necessarily) high government spending. This has been well illustrated in the United States in the past three years. Spending has gone way up but taxation has not. Inflation has come down. Those who are curious about the future course of inflation should keep their eye on the Senate Finance Committee and the House Ways and Means Committee, where tax bills originate, not on the appropriations committees. It is the main weakness of this book that the authors fail to take note of the connection between inflation and taxation. They may think that government spending is a good approximation of, or "proxy" for, taxation, but that is incorrect. A country could have fairly high government spending, paid for by a combination of borrowing and low marginal tax rates, without any inflation.

On the other hand, the authors are correct to say that it is simplistic merely to blame inflation on "the money supply." It is true that a rise in the money supply will accompany inflation, but this rise is almost always the *response* to some other, prior problem that was the true cause of the inflation. The increase in the money supply is thus a kind of lubricant, oiling an economy whose gears are not meshing properly. Our position today, as the authors point out in different words, is that this monetary lubricant can no longer be rationally applied to the machine, because after so much use it now has perverse effects that merely exacerbate the original problem. It is no longer possible to push interest rates down (except for very short periods) by turning on the monetary spigots.

There are many other good things in this book, which I would recommend to all students of inflation, one of the great problems of our time. Nevertheless, the problems of government spending and taxation do need to be differentiated.

Contributing Editor Tom Bethell also writes for National Review *and* Washington Monthly.

Jeremiah or False Prophet?

Algeny
By Jeremy Rifkin
New York: Viking Press. 1983. 541 pp. $14.75.

Reviewed by Jane M. Orient

The founder of the Moral Majority, the president of Reconstructionist Rabbinical College, many Catholic bishops, and the president of the National Council of Churches have all en-

Book Hints

a selective mention of books received for review

While no one can ever be guaranteed a path to riches, expert investment analysts can help point the way. Where are the investment opportunities of the 80s?

In *High Tech Investing* (New York: Times Books, 1983, 283 pp., $17.65) Rodger Bridwell identifies money-making potential in six high-tech growth areas: mini- and microcomputers; computer-aided design and manufacturing devices; industrial and service robots; software programs; biochemical products; and ultramodern electronics. Overseas markets provide another frontier for American investors to explore.

In *International Investment Opportunities* (New York: William Morrow, 1983, 375 pp., $17.95) Adrian Day, an investment advisor and editor of a financial newsletter, analyzes a panorama of international investment opportunities. And a detailed account of Swiss banking and investment possibilities can be found in *The Swiss System: How the Gnomes of Zurich Can Help Your Assets Grow Safely and Confidently* (St. Thomas, Virgin Islands: Caribbean Overseas Enterprises, 1983, 196 pp., $29.95). *The Swiss System* features contributions by several leading Swiss banking and investment authorities as well as financial writers, among them Harry Browne.

For the reader interested in another area, *The Metals Investment Handbook* (Costa Mesa, Calif.: Common Sense Press, 1983, 171 pp., $25.00), by R. S. Taylor-Radford and John A. Pugsley, offers a well-researched review of industrial metals and their markets. On a less-exotic note, Gil Armen in *Residential Real Estate* (Englewood Cliffs, N.J.: Prentice-Hall, 1983, 301 pp., $9.95 paper) describes the benefits of investing in residential real estate in the 1980s and guides the reader through the investment process.

For those alarmed about all the recent talk about bank failures and their potential impact on investments, *When Your Bank Fails* (Princeton, N.J.: Amwell, 1983, 244 pp., $16.95), by REASON contributor Dennis Turner describes the scope and causes of current bank problems and suggests how individuals can protect themselves against a banking collapse.

Speaking of collapse, in the *World Crisis in Social Security* (Paris: Fondation Nationale d'Economique Politique; San Francisco: Institute for Contemporary Studies, 1982, 245 pp., $9.95 paper), edited by Jean-Jacques Rosa, various authors expose the international prevalence of the crisis faced by social security programs. Though the programs differ in details, they are confronting surprisingly similar problems.

For a look at welfare policies in general, David Green's monograph, *The Welfare State: For Rich or for Poor?* (London: Institute of Economic Affairs, 1982, 40 pp., distr. by Transatlantic Arts, Albuquerque, N.M., $4.75 paper) analyzes government welfare as a defective method of aiding the unfortunate.

Well-known medical journalist Harry Schwartz investigates and repudiates arguments in behalf of national health insurance in his monograph, *National Health Insurance* (Dallas: National Center for Policy Analysis, 1983, 56 pp., $5.00 paper). Another look at health care is provided by Clark Havighurst in his comprehensive critical assessment of regulatory policies in this field—*Deregulating the Health Care Industry* (Cambridge, Mass.: Ballinger, 1982, 500 pp., $37.50). Also arguing for free choice and free markets, Fred D. Miller, Jr., explores the infant formula controversy in *Out of the Mouths of Babes* (Bowling Green, Ohio: The Social Philosophy and Policy Center, 1983, 98 pp., $6.95 paper).

—L. S.