



a report from

2nd congressional district of arizona

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Let's Stop Inflation -- Now

"We favor sacrifice if someone else goes first. We want to abolish tax loopholes, unless it's our loophole. We denounce special interests, except for our own."

--President Jimmy Carter

April, 1978

We see it everywhere: new prices scrawled over the old, the repair bill that suddenly shoots much higher, soaring medical bills, the higher cost of everything.

It's inflation -- without question the number one concern of Americans today.

It nibbles at paychecks, it robs young and old of their dreams, it is eroding our economy. We have to do everything in our power to stop inflation and stop it now before it stops us.

Inflation is not a new problem. It almost always has been around. But seldom has it been with us for so long and at such a high rate.

In past years, the rate of inflation in the United States inched along, nearly invisible. Wages usually managed to stay ahead of the game and few were bothered very much.

At the end of every decade, real income, after inflation and taxes, was up.

But there have been periods in our history when we have had a rate of inflation much worse than that of today. The period following the end of World War I was one such time.

Exactly what is inflation?

Put simply, it is when your money buys less and the dollar is worth less. It's when it takes more and more money to buy the same amount of goods. It is when there is too much money and too much credit.

It Couldn't Happen Here

In theory, the situation we face today was never supposed to be possible. Economists always assured us that high inflation *and* high unemployment were incompatible. It was possible to have one but not both, and if you did have one, chances are the other would cure it.

There wasn't anything partisan about the philosophy. Republicans and Democrats and the best scholars in the country ascribed to it for years and years because it seemed very sound.

Well, a lot has changed in this country in the past few years and our economic theories and assumptions are probably at the top of the list. In fact, they really have fallen by the wayside.

We have discovered, rudely, that it can happen here, that we can have inflation and millions of people without jobs at the same time.

What else went wrong?

Let's take a look at some recent history and trace some steps that I think contributed to the predicament that we face today.

* First, the high cost of imported oil.

While the causes of inflation over the past dozen years are legion, perhaps none have had the impact of our five-fold jolt in the cost of imported oil.

We simply have to bring our oil imports under control.

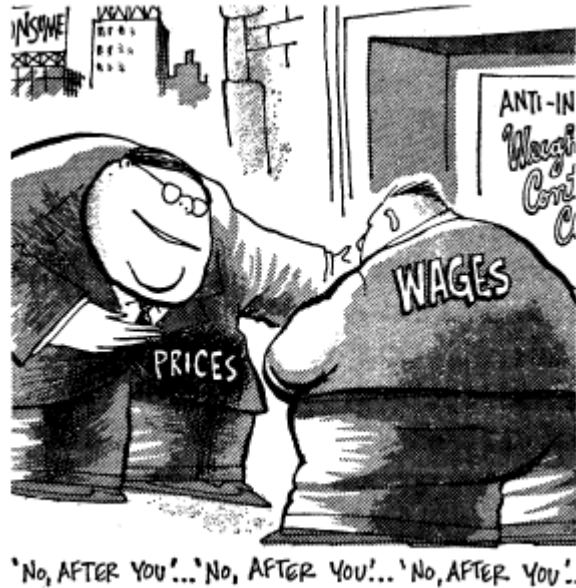
Four years ago, Americans waited in line to buy gas, vowing to end their gluttonous ways. There was to be a rush to small cars, solar power, better-insulated homes and all the rest. Americans had seen the light, and the goal was to drastically cut our use of oil.

Four years later, every single industrial country on the planet, despite growth in population and in Gross National Products, has achieved that goal.

Every country -- *except* the United States.

The most remarkable example is Japan, which has more people and has had *incredible* growth, to the point that its favorable balance of trade is an embarrassment to its government.

So successful, in fact, has Japan been in the area of trade, that America is now demanding that they cut it out.



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Yet, *Japan today uses fewer total barrels of oil than in 1973.*

And where are we?

The United States has followed a lonely and ruinous course. Our production of oil is down about 20 per cent, and our consumption is up by about 20 per cent. The product of our high living? A \$45 billion hemorrhage paid out to buy imported oil.

It threatens to ruin our economy, and *no* fight on inflation will have any chance of success unless we begin doing something about this oil situation.

We are, literally, over a barrel.

* Second, government must put its house in order.

Back in the 1960s, President Johnson plunged us into deficit spending to finance the Vietnam War, and our economy suffered.

President Nixon overstimulated the economy just before his 1972 reelection campaign, and that didn't help either.

There has been intermittent devaluation of the dollar, continued deficit spending, too many inflationary programs and some well-intentioned policies that have gone sour.

Clearly, government must accept a large share of the blame. But government alone is not the cause of today's horribly accelerated rate of inflation.

And government alone does not hold the key to a cure. More on this later.

* Third, there was a world shortage of food from 1972 to 1974.

Any businessman can tell you about the law of supply and demand. And when the supply of food in the world declined in the early 1970s, the price of what was left shot up.

There were other factors in the food price push. The Russian grain sales, which depleted our surpluses at low prices, was one.

You don't need me to tell you that food prices have stayed high for a long time.

But despite that, farmers aren't making any money. In fact, the farmer has been hit perhaps worse than most of the rest of us. The prices he receives for his crops have stayed way below what each of us pays for the finished product in the supermarket, while his costs on the farm have spiraled.

That's a partial list of what ails us and some of the factors that combined to put us where we are today. The list is longer because our economy is an interlocking affair where one thing affects another.

It might be easy to argue that our free enterprise system has gone the way of the stagecoach. I disagree, for I believe that the basic underlying principles of the American economic system are sound.

Our economic principles work when they are permitted to, and in recent periods of our history, they have given ordinary citizens a standard of living that kings would have envied just a few hundred years ago.

Our problem is that we have not always let the free enterprise system work.

The Case for Deregulation

Too many government regulations, for example, seem to be working against us and not for us. Instead of nurturing and promoting free enterprise, many have had the combined effect of curbing employment, keeping prices high and just not focusing on things that really count.

The Environmental Protection Agency, for example, ought to be working to clean up Arizona copper smelters, not put them out of business.

There are unsafe conditions in some factories, and that's how the Occupational Safety and Health Administration (OSHA) came into being.

But while OSHA inspectors were paying attention to the size of knotholes in ladders and looking at gluepots at Tucson newspapers and inspecting toilets, grain elevators have been blowing up all over the country.

The Interstate Commerce Commission (ICC) is responsible for another example.

The next time you're on the interstate and see all those big trucks rolling by, just ponder the fact that *40 per cent of them are empty*.

Common sense says that a trucker delivering citrus from Phoenix to Salt Lake City might want to bring back a load of steel. But he can't. The ICC gives the steel certificate to one trucker and the permit to haul citrus to another.

With our importation of foreign oil on the rise and our balance of trade fueling inflation at an ever-faster clip, a complicated ICC regulation ignores the whole thing and encourages the waste of gasoline.

What happens when we deregulate?

Take a look at the airlines. We've started to let them compete again, and a marvelous thing has happened -- prices are down. They can carry more people, give customers better bargains, and still make money.

Who benefits? All of us. The airline case is a clear-cut example of what can happen when we put the "free" back in free enterprise.

Ridiculous government regulations must be curbed.

Washington and Inflation

A few paragraphs back, I mentioned that government is not the only cause of inflation and it can't be viewed as holding the only remedy.

Let me explain.

There is a school of thought that says if the federal government will only balance the budget so that it spends only what it collects, inflation will disappear. This usually is tied to the second part of the thesis, which says that if government will only trim its "uncontrollable bureaucracy," inflation will vanish.

The graphs printed below, however, show this to be a shaky theory.

In 1947, inflation was at 14.3 per cent, with a budget *surplus* of \$3.9 billion.

In 1955, there were 13.2 civilian federal workers for every 1,000 Americans. And in 1970, during the Nixon years, there were 13.4 federal employees per 1,000 Americans.

What do you suppose it is today?

Lower -- *lower than in 1955 and in 1970*. In fact, in the last 10 years, the total number of federal civilian employees has dropped from more than 3 million to about 2.8 million and the rate per 1,000 population is *down to 13.1*.*

*By comparison, Arizona has 56.6 state employees per 1,000 population.

Somewhere along the line we have cultivated a myth that adjusting the federal budget can work magic on inflation, unemployment or any other economic problem.

I'm for a balanced budget -- but the record doesn't bear out the conclusion that a balanced federal budget means no inflation.

The United States *had* balanced budgets in 1960 and in 1969, and we had inflation right along with them. In 1969, it was pushing 6 per cent.

I think government should be held in check wherever possible. I think we should eliminate waste. And when we have a government program, it ought to be handled right and efficiently.

I think we can revive our economy and make it sound again. But we must look to the basics, for there is no "quick fix."

One thing we have to do is restore this principle of competition. If we really believe in it, then let's have it for everyone.

When prices are dictated and our choice of products is narrowed, that isn't free enterprise, or a free market. It's a free ride at your expense. And it's a major cause of inflation.

A Battle Plan

So, along with these anti-inflation points:

- * Controlling our oil imports
- * Curbing anti-competitive regulations
- * Watchdogging public spending

I want to add a couple of others:

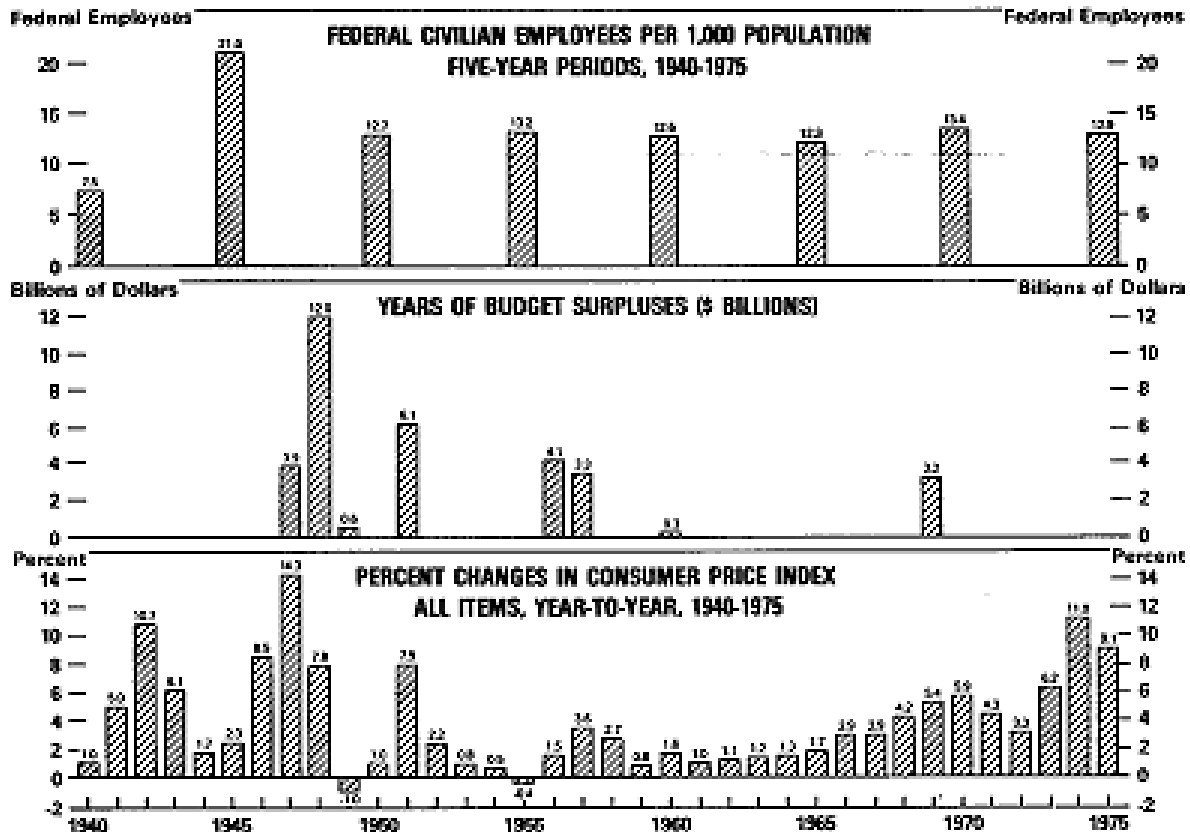
- * Stopping "inflation by anticipation"
- * Taking the toughest stand necessary to stop inflation now

Let me elaborate on the last two points.

First, "inflation by anticipation" is kind of like a dog chasing its tail. In the past few years, everyone has decided not only to keep pace, but to get a little extra in this economic game.

There is a Spanish expression, "Yo Primero," which translates to, "Me First." And that seems to be the rule for everybody, and we all pay the price. We all get involved in a circular game we might call "Mark Up." I'll give you a recent example:

- * We had a long coal strike and the settlement increased the price of coal.



Sources: Economic Report of the President, January 1976; Statistical Abstract, 1977;
and U.S. Department of Labor, Bureau of Labor Statistics

- * People who make steel use coal, and they found that the coal strike increased their costs of steel by \$3.50 a ton.
- * But U.S. Steel, the biggest producer, didn't want to raise the price by just \$3.50. They played "Mark Up," and raised the price by \$10 -- a 300 per cent increase -- despite increased steel imports and a declining demand for their products.
- * The White House screamed, and steel went back to only a \$5 increase, still 35 per cent more than could be justified by the coal strike.
- * Next enter the steelworkers, who will come in for wage demands and ask for perhaps \$1 more an hour than otherwise, because consumer prices are up because the price of steel is up.

When this circle is complete, the steel executives will raise prices again to meet wage demands and the game is off to another round. Any number can play "Mark Up" and everybody does.

And everybody loses.

Let's Get Tough

The last point of my plan calls for getting tough, and unlike President Carter, I don't shrink from firm government action against a villain like inflation.

I think we can take on this fight in steps, one at a time, and work our way up the ladder until the job is done.

The "ladder" could look like this:

1. Jawboning. Surely enough "friendly persuasion" could be applied by the President and Congress to hold down some wage and price increases.
2. Government should have the power to order delays in price increases in concentrated industries, for a 60-day "cooling down" period, to give editors, congressmen and everybody else time to howl and maybe keep prices down.
3. Government purchasing procedures don't respond to free market forces. They should.
4. We need tax incentives to reward companies that increase prices less than average.
5. Possible "rifle shot" attempts to curb prices in industries that don't have market prices anyway. Such action should be limited.

If all else fails, the last and the ultimate weapon is wage and price controls. If it comes to choosing between double-digit inflation or some controls over very large and uncompetitive sectors of our economy, I'm prepared to consider controls.

But wage and price controls don't work very well on a broad scale, and they ought to be everyone's last resort. Certainly they are mine.

I don't like fixed prices, I like market prices, and when we have real market conditions, there is no need for controls.

But in some segments of our economy, prices are fixed for all practical purposes, and if it has been decided that we will have fixed prices, then the only remaining question is who will do the fixing?

If the choice is between a handful of monopolistic industries or the American people through the Congress, I vote for the latter.

At least we ought not flatly promise, as President Carter has done, that this gun will never be pulled out of the holster.

Biting the Bullet

For the past several years now, U.S. inflation has been almost entirely circular. The current trend is the result of rising prices in the past and the expectation of further price rises in the future.

The attempt by everybody to make up for past erosions of earnings and profits and to protect against it in the future is being written into all sorts of wage agreements, price lists and labor contracts up and down the line.

I think we can break this cycle. I'm not promising that it will be easy, that it will happen overnight or even that it will be pleasant.

But I am convinced that the time is past for asking the American people for sacrifice. Americans already are making too many sacrifices to be asked to make many more.

This time, government, labor and business have really got to bite the bullet together.

You'll see a lot of "business confidence" and a lot of investments when the economy starts to move and inflation slows down.

As for my part, I plan to give every possible effort to this new war on inflation.

It's a war we simply must win.



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