

# MANHATTAN REPORT

ON ECONOMIC POLICY

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VOL. I NO. 1

## The Distribution Myth

The following article was presented as testimony before the Congressional Joint Economic Committee on January 28, 1981.

by George Gilder Program Director, ICEPS

A major goal of the economics associated with the Reagan administration is to replace the static concept "distribution of income" with a dynamic of opportunities and incentives. The word "distribution" connotes a centralized system in which a predetermined fund of income is "distributed"—or doled out from above—to a subject citizenry. The implication is that more equal "distributions," however accomplished, are preferable to "distributions" that correspond better to the variety of human performance in the economy. The further implication is that the economy is a zero-sum game, managed by government, in which one man's gain is likely to be another's loss. To the extent that such a zero sum concept is promoted in policy, it fosters a bitterness and factionalism that is inimical to capitalist creativity and stifles the expansion of opportunities and incentives for creation of new wealth.

The distributionist mentality is at the heart of our current economic distress. In static terms, the distribution of income and wealth became more equal during the 1970s. In the idiom favored by distributionists, welfare programs became more "generous," taxes more "progressive," and both rose far faster than inflation. Inflation, meanwhile, tended to destroy the wealth of the upper brackets, decimating the real value of stocks and bonds, but left untouched the indexed incomes and in-kind benefits of welfare and social security recipients.

The middle class tended to keep its income intact during the 1970s through their ownership of housing, with its many tax benefits in an inflationary period, and through the increasing value of their hyper-indexed social security entitlement. With welfare becoming more generous, with taxes more progressive, and with the rich as the prime victims of inflation, the 1970s were a golden age of redistribution.

The fundamental misconception of the distribution mentality is manifest in these poverty statistics. As Joseph Sobran has written, real poverty is a matter not of income but of pros-

pects. Redistribution improves the incomes but destroys the prospects of the poor. Since the launching of the so-called "War on Poverty" in 1965, the rates of family breakdown, work force withdrawal, teenaged unemployment, crime, and other indices of real privation all more than doubled among the big city poor that were the focus of redistribution. Most tragic of all, 60 percent of black children are brought up without fathers in the home, compared to 18 percent of white children.

What in fact occurred during this period was a vast expansion of redistributory programs that halted in its tracks an on-going improvement in the lives of the poor. So-called "generous" welfare benefits tend to cause family breakdowns, retard work effort, and spread demoralization. Far from abolishing poverty, redistribution tends to intensify and perpetuate it.

Excessively high and progressive tax rates, on the other hand, tend to impoverish the whole society by retarding the entrepreneurial creativity that is the prime source of new wealth. Progressive tax rates don't chiefly redistribute income; they destroy income and redistribute taxpayers. Taxpayers move out of the productive economy and into tax shelters or overseas tax havens. They consume more and invest less. They make less money that way, thus presum-

*(Continued on page 2)*

## Inside:

- "Lessons from London": Based on an exclusive interview with Margaret Thatcher's chief economic advisor, Alan Walters.
- Has justice been served by judicial intervention in the New York housing market? Peter Salins provides a well documented answer.
- Four commentaries from ICEPS's radio series
- ICEPS's economic forums attract New York media.

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# The Distribution Myth

(Continued from page 1)

ably pleasing the distributionists, but they also create fewer jobs and less wealth for the entire economy.

Under conditions of stagnation, moreover, government spending and taxation tends to increase as a proportion of GNP. With the investments and potential earnings of the rich redistributed out of the system, the less mobile middle class has to suffer a rising tax burden. This is the dead end of the redistributionist program. Less money is collected from the rich and more from the middle class, all in order to sustain social bureaucracies that keep the poor in a condition of dependency and extend poverty on into future generations.

The Reagan program will focus not on redistributing money but on expanding incentives and opportunities. Although the immediate effect on the distribution of incomes may be regressive, the distribution of prospects and potentialities will be vastly improved. The result will be a more open economy, with more rich people, less real poverty, and better prospects for all Americans.

These benefits, however, depend on maintaining all three themes of the Reagan policy: halting the growth of transfer payments, welfare programs, and other counterproductive government spending; retrenching tax rates on all forms of personal income, with adamant resistance to any further efforts to increase so-called "progressivity"; and continued maintenance of monetary restraint.

Above all, we must avoid the approach recently followed in England: monetary restraint as measured by M-1 and the monetary base, combined with expanded government spending, higher taxes on individuals, and so-called targeted supply-side tax cuts for business. The European experience, particularly in Britain and Sweden, conclusively refutes all claims that opportunity and productivity can be enhanced with depreciation reforms, investment credits, and special incentives for contractual savings, while tax rates on personal income remain exor-

bitant. The United States needs depreciation reforms (if they are not skewed in favor of real estate tax shelters). But economists who believe that corporate tax cuts and credits alone will suffice to revive the economy must explain why Britain stagnates despite 100 percent one year depreciation and Sweden declines despite the lowest levels of corporate taxation in Europe.

The international evidence suggests that low marginal tax rates on earnings foster a more equal distribution of income, even in static terms of *Gini* coefficients, than do direct programs of redistribution. Asian countries like Taiwan and Japan, with marginal tax rates approximately one half the U.S. levels on comparable incomes, show extraordinarily equal distributions of income. Excessive welfare benefits and excessively "progressive" income taxation produce a stagnant economy in which the established rich keep their position by exploiting tax shelters, while the creation of new wealth is stifled. High marginal tax rates on real income and capital gains constitute a government protection act for established wealth against new wealth. □

## MR's Debut

As you are doubtless now aware, ICEPS's latest venture is the *Manhattan Report*. More than a conventional newsletter, *MR* presents important briefs by leading market economists and economic analysts. These briefs contain extremely topical information which can be used by informed laymen as well as serious students of economics. Also featured in *MR* is "Market Forum," in which we conduct interviews with leading figures in the world of economics. (Note our comment in this month's "Forum" section.) Occasionally, this department will feature debates and panel discussions on the newest developments in market-oriented research. The last four pages of *MR* are devoted to the important activities of ICEPS.

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## MANHATTAN REPORT

ON ECONOMIC POLICY

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# Courting the Housing Market

**The effects of judicial intervention in the New York City housing market.**

by Peter D. Salins

*In 1976, standing amid the rubble of the South Bronx, Jimmy Carter clearly sided with those economic advisors who proposed yet more public intervention to reverse the moral and economic decline of the inner city. It is unlikely that Carter had read much of Thomas Sowell or Roger Starr, to name only two economists who have vividly described the tragic manner in which urban decay feeds off public assistance. Nor is it likely that Carter or many of his advisors paid much attention to the work of Peter D. Salins, Chairman of the Department of Urban Affairs at Hunter College.*

*No one has done more to document public intervention in the marketplace as it affects the New York City housing market than Peter Salins. In the ICEPS book *The Ecology of Housing Destruction*, Prof. Salins clearly shows how intervention in the housing market has ruined many valuable tracts of New York real estate. And it's not just the rich landlords who suffer. Commenting on Salins's book for the New York Times Book Review, critic Walter Goodman observed that "... the people most severely hurt by New York's housing policy are the poor. ... Our politicians are in no position to speak as frankly as Peter Salins does, but they could do worse than read what he has to say."*

*The following description of judicial intervention in New York's housing market is not entirely endemic to New York; politicians in many large American cities are either considering judicial intervention in the housing market or already have powers to enforce similar market restrictions.*

During any given month in recent years, over 150,000 tenants, or 8 percent of New York City's renters, are delinquent in the payment of their rents. In the aggregate, rent delinquency amounts to \$450 million per year or 10 percent of the entire rent roll. Furthermore, probably 50 percent of the delinquent tenants are families that, while poor in conventional socioeconomic terms, nevertheless receive subsidies to cover the entire amount of their rent obligations. The really astounding fact, however, is that most landlords find it inordinately difficult to evict their rent delinquent tenants; conversely, most rent delinquent tenants can enjoy their apartments for long periods without paying rent. This

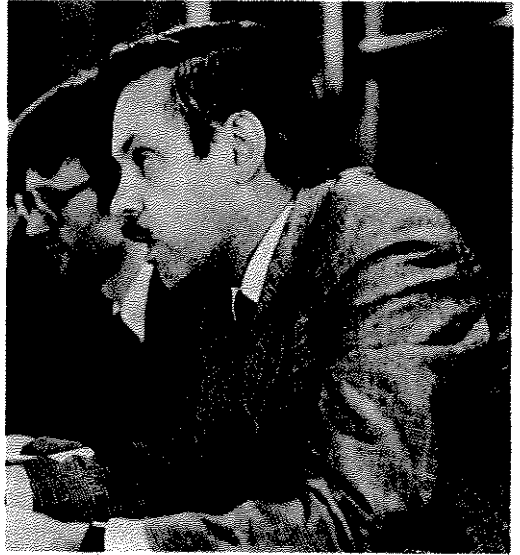


Photo by Craig Terry

**Prof. Salins at a recent ICEPS conference on urban enterprise zones.**

state of affairs, one of the key elements in the city's ecology of housing destruction, is a direct result of its curious system of adjudicating landlord-tenant disputes.

The most fundamental assumption embodied in the tenant-landlord contract is that the tenant must pay the landlord rent; if he fails to do so, he must vacate his premises. It does not occur to most tenants in this country that non-payment of rent is even temporarily an option, since it is assumed that such behavior will result in swift and summary eviction. There are other aspects of the tenant-landlord relationship that are less fundamental, but are nevertheless embodied in the lease or in the law. The landlord is expected to keep his building and all tenants' apartments in good repair (however that is defined by law). The tenant must behave responsibly and with a certain degree of decorum (however that is defined in the lease). Sanctions can be imposed by tenant or landlord for an infringement or violation of these secondary agreements, but they are harder to document and less speedily enforced. In these respects the landlord-tenant relationship resembles all other seller-buyer or lessor-lessee agreements where the basic precondition for the consummation of a transaction is the payment of an agreed upon price by one party to receive the goods or serv-

*(Continued on page 4)*

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# Courting the Housing Market

(Continued from page 3)

ices offered by the other, with certain additional understandings existing (explicit or implicit) as to the quality of the merchandise or service being exchanged. The remedy, in most cases, for a breach of faith with respect to merchandise quality is an annulment of the transaction where the buyer/lessee gets a refund and the seller/lessor gets back his merchandise or ceases to perform his service. Under almost no circumstances is the remedy for an unsatisfied purchaser/lessee the continued enjoyment of the "flawed" good or service for free.

But the New York City rental housing market seems to be an exception. Under current New York City law and judicial practice, the continued enjoyment of apartment occupation without payment of rent, under certain circumstances, has become another basic tenant "right." Along with rent control, this is part of the city's general strategy of trying to shift the economic burden of providing standard housing at moderate cost to the private ownership sector.

## Creation of the Housing Court

Unlike rent control, the landlord-tenant adjudicatory system has become less favorable to landlords and more favorable to tenants over the years, especially in the most recent period. But like rent control, the system enjoyed a long period of relative stability and was only recently (1972) modified in significant respects. Before 1972, the landlord-tenant adjudicatory system spanned civil and criminal courts, and operated in a fashion typical of most American urban jurisdictions. Landlords with tenants who were rent delinquent, or who violated their lease agreements in other respects, could seek relief in civil court. If rent delinquency or other lease violations could be documented, the court would authorize tenant eviction. Over time the city courts grew increasingly reluctant to evict poor tenants, especially in cases where they confronted "slum landlords" with buildings in obvious disrepair. Increasingly, the courts in such cases would authorize or condone rent "withholding," but usually under circumstances where the court would hold all withheld rent monies in escrow. Nevertheless, court sanctioned rent withholding was the exception rather than the rule, and until the mid-1960's most landlords did not find it inordinately difficult to dispossess rent delinquent or otherwise offending tenants.

Under the pre-1973 system, complaints regarding building disrepair normally involved actions entirely independent of landlord attempts to collect back rents. Tenants in civil court, or

the city in criminal court, could sue landlords to make such repairs as were required under either the city's building code or tenant lease provisions. If code violations or unfulfilled leasehold obligations could be documented, the courts could force landlords to make the necessary improvements, fine them, or, in extreme cases, impose short prison sentences. As one would expect, the adjudicatory system was not especially effective in insuring high standards of building maintenance or repair. Given the reluctance of all citizens, but especially poor ones, to enter litigation of any sort, and the ponderous ways of the city's housing bureaucracy, not very many complaints against landlords were lodged relative to the size of the housing stock and the number of probable violations. Furthermore, given the necessity of documenting violations and repairs through the housing inspection system, relief was a very time consuming affair.

The growing vocality of tenant rights groups in the 1960's, building on a long-standing public antipathy to "slum landlords," created a widespread public perception that landlord-tenant adjudication was asymmetrical. Landlords could evict delinquent tenants at will and had the legal resources to do so. Tenants would have to waste a great deal of time and money to get landlords to fix up their apartments, with problematical chances of success after long delays, at best. It was this perception of asymmetry in tenant-landlord relations that prompted the major reform of this adjudicatory system, the creation in 1972 (taking effect in 1973), of the New York City Housing Court.

The housing court was created as a branch of the civil court system (by the act of the New York State legislature) to, in effect, remove tenant-landlord cases from other branches of the civil court, as well as make unnecessary most criminal prosecution of landlords. All cases involving housing related complaints, whether tenant or landlord initiated, would first be disposed of in the housing court. The significant policy change embodied in the housing court idea was the mandate written into the legislation that specified that the housing court must "recommend or employ any and all of the remedies, programs and sanctions authorized by Federal, State or local laws, for the *enforcement of housing standards, regardless of the relief originally sought by the plaintiff* (emphasis added)." In other words, the business of the court was to be primarily directed to ensuring proper building maintenance and code compliance. Since most plaintiffs in landlord-tenant cases are landlords and since the relief sought is generally payment of back rent, this mandate clearly authorizes the court to establish a linkage between the for-

*Under current New York City law, the continued enjoyment of apartment occupation without payment of rent has become another basic tenant "right."*

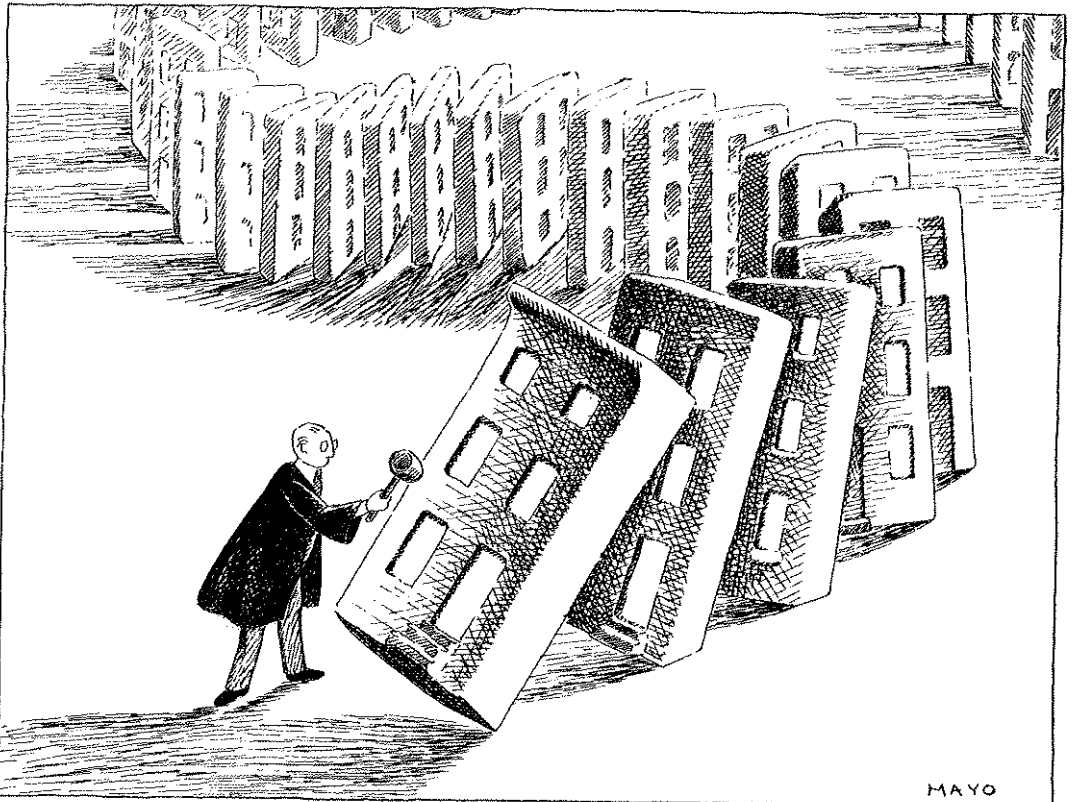
merly independent issues of rent delinquency and code compliance and, furthermore, to place code compliance ahead of rent collection as a judicial priority.

### **Invitation to Rent Delinquency**

The housing court system, then, virtually invites rent delinquency as a remedy for purported levels of inferior building upkeep. It appears that the invitation has been widely accepted. It also appears that the various parts of the housing court have also heeded their mandate with respect to placing code compliance as a higher priority than rent collection. At present, in the majority of cases where a landlord sues for back rent, tenant representations are routinely made that rent arrears are being incurred because of code violations. In the disposition of the majority of these cases the housing court parts have ordered building and apartment repairs as a precondition for the payment of back rent. Furthermore, in most of these cases there is no holding of rent monies in escrow by the court, as was the practice in landlord-tenant court cases before 1973; nor does the court necessarily authorize payment of all back rent even when the removal of code violations is documented. Common practice is to "negotiate" a settlement

between tenant and landlord where only a portion of the back rent is paid, under the justification either that the landlord was not entitled to his full rent before the apartment was put in satisfactory condition, or that the tenant, being poor, is in no financial position to make the full restitution. It should be noted that, in a large proportion of these cases, the delinquency does not involve tenants' income out-of-pocket, but rather the spending for other purposes of a welfare shelter allowance.

The impact of this curious adjudicatory system on building income flows, and on building values in the marginal real estate market, is predictably pernicious, but in the context of the legislative intent behind the creation of the housing court, the more immediate question is: has it increased the level of code compliance? The answer, not surprisingly, is no. In 1966 (under the old system) there were 593,000 code violations outstanding. In 1972, on the eve of the introduction of the new system there were 934,400. As of 1975 there were 1,146,800. So for all of its success in reducing landlords' rental income, and encouraging widespread tenant rent delinquency, the housing court has not succeeded in increasing the level of city-wide code compliance. □



## Lessons from London

*Last December, shortly before he crossed the threshold of #10 Downing Street to become Margaret Thatcher's chief economic advisor, Prof. Alan Walters granted the Manhattan Report an exclusive interview at the World Bank in Washington. Based on that interview, George Gilder prepared the following paper on Mrs. Thatcher's economic policies and what lessons the Reagan Administration can learn from them. The interview itself, which was taped and later transcribed for publication, was considered something of an embarrassment to the Prime Minister's office, and they made the request that MR not publish it. In deference to Mrs. Thatcher and Prof. Walters, we have decided not to print our interview with Alan Walters at this time.* —ed.

Mrs. Thatcher has been a respectably faithful monetarist. But alas, monetary policy alone is not enough. She has failed to combine her reduction in monetary growth rates with a reduction in government taxing and spending. Without spending cuts and discipline of public sector enterprise, tight money merely chokes the private sector. "Inflation" may diminish under some circumstances but only at the cost of grave damage to the very private companies that are the hope of the future for the British economy, providing promise of new revenues for government and rising productivity for the entire system. In 1980 and 1981, British manufacturing output is expected to drop by a total of twenty percent, and investment spending—a key source of future growth—sank 13 percent in 1980 alone.

Meanwhile, the obsolescent, inefficient, and overmanned public sector industries—British steel, British Leyland, the National Coal Board, British Rail, British Shipbuilders, the Post Office telecommunications monopoly, and other leviathans—will absorb more than a billion pounds of scarce capital in 1980 beyond their budgeted borrowing levels. British Leyland, in particular, is slated to receive more than two billion dollars worth of additional subsidies, and some \$500 million more than Chrysler, despite a pre-Christmas strike at the crucial plant producing its new world car entrant, the Metro.

Dramatically increasing the need for these bailouts is the very recession that is at least partly attributable to Mrs. Thatcher's failure to cut taxes or government spending when she restricted monetary growth. As in the case of Chrysler, leading authorities justified the huge

continuing payments to Leyland by pointing to the array of other employment, particularly in British steel, that would be lost if the company sinks.

American supply-siders have understandably sought to distance themselves from Thatcher's performance. No sooner had Mrs. Thatcher divulged her first budget than Arthur Laffer, whom she had consulted during her campaign, repudiated it in the *Wall Street Journal*, writing that the Thatcher plan would bring severe recession without supply-side benefits or Laffer curve reflows.

Laffer was clearly right in his prediction and probably correct in his assertion that a near doubling in the Value Added Tax on non-necessities would nullify the handsome upper-bracket cuts, including the drop in the top rate on unearned income from 83 to 60 percent. Laffer told the editors of the *Journal* that there is no distinction between an income tax and a tax on those goods that would be purchased with the income. Even the desired stimulus to savings would be largely lost, because one saves in order to consume in the future.

Moreover, the upper-bracket tax rate cuts were counteracted not only by the huge VAT increase and several other tax hikes, particularly on North Sea oil, but also by the near doubling of the inflation rate, which raises the real tax on interest income to well over 100 percent. Under these circumstances, it would take a dauntless supply-sider indeed to predict revenue gains from these rate cuts in the midst of a near depression.

Nonetheless, the available data, sketchy though it is, suggests that a Lafferite effect may possibly have occurred, despite the skepticism of Laffer and the drop in real GNP. During the first quarter of 1980, as the economy plummeted, government revenues were apparently up 32 percent from a year earlier, with no new rise in VAT hikes and with only a portion of the increase attributable to hikes in North Sea oil revenues and a sizable payment from the European community. As a supply-sider would predict for a 30 percent cut in an 83 percent rate, his action may well have accelerated the move out of the most expensive tax shelters that was presumably underway after Prime Minister Callaghan's cut of the 98 percent tax on "unearned" income.

It is also likely that these tax cuts, together with lavish loopholes and exemptions for purchase of insurance and pensions, contributed to the continued vibrancy of British saving at a time when even a 10 percent inflation rate had caused U.S. savings to plummet. (Americans had taken advantage of the massive federal exemptions and subsidies for housing by putting their

*Although Mrs. Thatcher may ultimately succeed in reviving the British economy, the United States cannot afford to follow the British example.*



**ICEPS Program Director George Gilder with Prof. Alan Walters**

discretionary funds into their residences and consumer durables—ways of deferring consumption not treated as savings in the National Income accounts.)

The Thatcher regime thus may offer some tentative confirmation of supply-side propositions about the impact of cuts in marginal tax rates on government revenues and personal savings. But the impacts of one-legged monetarism—a restricted money supply combined with booming government, rising overall tax burdens, and interest rates soaring with expected inflation—all caused a drastic recession that countervailed her narrow successes.

Mrs. Thatcher's problems are particularly poignant because they stemmed in part from her moral rectitude—her refusal to renege on a campaign promise even when its fulfillment portended disaster. Under political pressure, she had pledged to accept the forthcoming findings of the Clegg Commission on appropriate levels for public sector pay, based on "comparability" with private sector pay in similar jobs. Even though the Commission arrived at an absurd recommendation of over 20 percent increases, which made all efforts at restraint in spending impossible, Mrs. Thatcher accepted its findings, asking how she could expect to be believed on other campaign commitments if she repudiated such a major one as soon as she assumed office.

Ironically enough, however, this decision to fulfill one campaign promise destroyed the credibility of most of her other ones—particularly her central resolve to fight inflation. As a result, her monetary restraint caused higher interest rates and deeper recession than necessary,

and she reneged, in effect, on her central promises to cut the burdens of overall taxation and government spending, and to denationalize several state companies.

The portents for the future are mixed. She seems at last to have halted the rise in interest rates, inflation, and some government regulations. But her recent appointment of Alan Walters, a brilliant but single-minded monetarist, as her new chief economic advisor, suggests no changes in tax policy. Summoned from Johns Hopkins in the United States (where he was presumably in hiding from British tax rates), Walters is a determined critic of supply-side theory. In an interview with ICEPS, he declared strong doubts that any tax rates under 60 percent could be reduced without revenue losses and strongly asserted that any further tax cuts must follow declines in inflation and government borrowing. Although Walters ably defends his views, his priorities have already been well tested and seem to be a key part of the British problem.

Now President Reagan has moved into the White House with a similar commitment to cut taxes and government spending and a similar commitment to fight inflation by monetary restraint. The question naturally arises—indeed, Jude Wanniski has already asked it in the *Wall Street Journal*—"Will Reagan Be Thatcherized?" With the Thatcher experience before him, and with better and firmer supply-side beliefs—and advisors—the answer is probably no. But the pull of contrary policies and the momentum of past mistakes—all the cautionary counsels and temptations and political pressures of a new Administration—are bearing down just as power-

*(Continued on page 8)*

## Lessons from London

*(Continued from page 7)*

fully on President Reagan as they did on Margaret Thatcher. Moreover, despite all the differences between the two countries and economies, President Reagan, in many ways, has even less room to maneuver than the new British Prime Minister did.

Perhaps most portentous is the fact that during his campaign, Governor Reagan made several promises that could together prove as disabling as Mrs. Thatcher's commitment on public sector pay. Reagan does not face a similar array of nationalized industries needing subsidies to survive, but in economic terms, loan guarantees or trade protections for automobile, steel, and synfuels firms, have the same effect of diverting scarce capital and resources from the more promising parts of the economy—and the same tendency to exacerbate the impact of monetary policy. At the outset of the Reagan Administration, a Chrysler bailout accompanied by renewed supports for the housing industry and by a failure to drastically cut back on synfuels subsidies and loan guarantees would likely destroy the credibility of monetary restraint in the same way that Thatcher's continued spending did.

In addition, if Reagan's campaign promise to maintain the integrity of the social security system is interpreted to exclude any cost saving changes in the rules, this commitment might prove nearly as destructive as Thatcher's promise to the Clegg commission. In particular, in an effort to restore the fiscal soundness of the system, Reagan should feel free to reduce the effective taxation of earnings by social security recipients—and thus lure them out of the underground economy or premature retirement and back into taxable work. Peter Drucker has presented evidence that as much as ten percent of all the hours worked in the economy are done by Social Security recipients off the books. Here is an obvious case where cuts in high effective tax rates and earnings prohibitions could bring significant gains in federal revenues.

Under current political circumstances, so-called "surgically targeted" tax cuts without personal income tax reductions are particularly perilous in the United States, as in England, because the likely beneficiaries are heavy industries in decline, like steel and autos, and housing, already massively subsidized (though the U.S. has for decades spent a four times greater portion of its capital on housing than European countries and an eight times greater share than Japan). The decline of the housing and auto industries portends a desirable shift in the United States economy toward vitally needed investments in energy, high technology, and

other entrepreneurial ventures. Any effort to stop this change will gravely damage the nation's future.

The Reagan Administration will do well to study the British experience. Although the usual data show substantially higher levels of government spending in Britain, most of the difference comes from nationalized medicine. Yet the United States, through nominally private but heavily regulated insurance schemes and government subsidies, spends almost twice as much per capita on health care. Blue Cross-Blue Shield, for example, operates much like a government transfer agency, taking money from some people and giving it to others but without playing a significant role of capital formation. U.S. health care spending is probably a greater burden on the economy than Britain's National Health.

In addition, the United States lacks the Thatcher option of cutting back on defense. In fact, the U.S. currently plans defense outlays in precisely those resource and personnel markets that already suffer most from inflationary demand: high technology and scarce metals. Although transfer payments have significant inflationary effects, the European experience tends to suggest that defense spending has a larger effect on prices, because it competes for scarce resources and manpower and pours money into the economy without producing marketable goods.

Although Mrs. Thatcher may ultimately succeed in reviving the British economy, the United States cannot afford to follow the British example. In fact, a deep recession in the United States might well destroy the remaining hopes for success in Great Britain. Ronald Reagan, as a world leader, has a supreme opportunity, and a compelling need—to fulfill the redemptive promise of supply-side economics that he offered so triumphantly in his national campaign. By a strong supply-side program, moreover, Reagan can follow the Japanese in vindicating monetarism as well, and establishing himself among the greatest economic leaders of the twentieth century. Perhaps, such an example could also save Thatcher and Britain.

The 1980s can be a period of global economic boom, as the energy crisis declines as a result of new efficiencies and natural gas and oil discoveries, and as the full potential of the microcomputer revolution unfolds. But the future can prevail only if governments do not allow themselves to be paralyzed by the claims of the obsolescent past—the declining industries, socialist ideologies and government bureaucracies that stand between us and a triumphal new decade. □

# Bringing the Message Home

Manhattan is home base for a plethora of national and international economic journals. Yet most economic policy research is carried out in Washington. Thus, reporters and editors in New York must often rely on the trickle down method of reporting, learning of the latest policy studies through their colleagues in the press. This has occasionally resulted in serious misstatements concerning economic policy matters, particularly with regard to market-oriented research.

ICEPS has been bridging this information gap by hosting media forums at which major economic issues are presented before some of New York's finest economic editors and journalists. Providing the media with authoritative, market-oriented analyses of economic policies has led to marked differences in the way a story is covered or in the amount of space devoted to market research. Useful research which might otherwise have been buried on an editor's desk is given thoughtful consideration and enters the light of public scrutiny, untarnished by misapprehensions.

ICEPS's first media forum focused on media myths concerning supply-side economics and included participants from *Time*, *Newsweek*, *The Economist*, *Forbes*, *Dun's Review*, *New York Times*, *Business Week* and other prominent national and international journals. Featured speaker for the event was ICEPS's Program Director George Gilder, whose extremely popular book, *Wealth and Poverty*, is now recognized as the reference source for supply-side theorists and policy makers.

Subsequent media forums have dealt with Margaret Thatcher's economic policies and

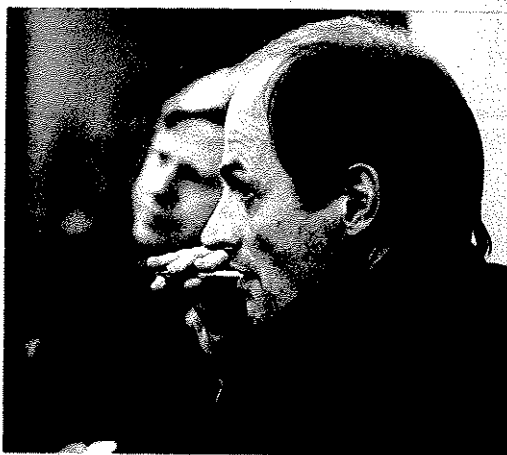


Photo by Craig Terry

**Jay Schmiedeskamp, economist for the Gallup Poll Organization, at a recent ICEPS economic forum.**

what the Reagan Administration has to learn from them, and an expanded panel discussion of urban enterprise zones. This last conference included a panel of the country's leading exponents of the concept and attracted over 90 participants, many of whom will be directly involved with implementation of enterprise zones in New York (i.e., representatives of lending institutions, local legislators and housing officials, members of neighborhood associations, etc.) Media participants were therefore not only offered a complete and accurate explanation of the concept of enterprise zones, but they were also able to see how the pieces of such a concept were likely to fit together. □



Photo by Craig Terry

Participants at an ICEPS conference on supply-side economics included (from left to right): Susan Antilla, *Dun's Review*; Robert Klein, *Money Magazine*; Lewis Beman, *Business Week*; and, Peter Crawford, Citibank.

# Marketing the Free Market

At a time when national interest in economic issues is at an all time high, ICEPS has managed to put together the necessary ingredients for a highly successful economic message which the general public can—and does—appreciate. The program is a radio series called PERSPECTIVE ON THE ECONOMY, and it is running regularly on radio stations all over the country.

Crisp, 90 second commentaries, PERSPECTIVE ON THE ECONOMY easily fits into a programmer's daily scheduling. Twelve exceptional economists and economic analysts—each with a penchant for presenting economic concepts in language the layman can understand—produce five new commentaries every eight weeks, thus assuring radio programmers of fresh, topical material.

Radio programming is more competitive than ever. The number of commercial radio stations has increased by over 12% in less than a decade. Because of this competition, stations have begun to tailor programs for specific audiences. What this means, as was recently pointed out in the *Wall Street Journal*, is more talk-oriented, educational programming. According to the *Wall Street Journal* article, "Disk jockeys are instructed to be topical, discussing events from presidential debates to airplane crashes." ICEPS's PERSPECTIVE ON THE ECONOMY is ready made for this type of format.

The commentaries themselves are all

based on sound, market-oriented economic principles, and the American public is ready for this approach. "Even with teenagers," says the *Wall Street Journal*, "a left-wing news presentation is alienating today, when ten years ago it was absolutely essential." Most Americans seem to agree that an economy fettered by government restraints is largely responsible for our present economic malaise. However, presenting a pro-market message to an audience bombarded for years by anti-market rhetoric and inveighments is no mean task.

Most readers of this newsletter are well aware of the tremendous growth of market-oriented economic research. A new group of economic scholars has come to the fore—economists who are prepared to speak directly to the "pocketbook" issues which concern the public. They have been joined by a group of economic journalists who are proving themselves to be far more critical of restrictive governmental policies than were their predecessors. If the public is to regain its faith in market forces—shaken by years of exposure to those critical of a free market—they must be presented with market-oriented economic analyses on a regular basis.

PERSPECTIVE ON THE ECONOMY certainly fills this void. What really makes ICEPS's radio series so successful, however, is the product: a radio series of superb commentaries, four of which are presented below.

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## Forgiving Us Debtors

by Tom Bethell,

Washington Editor, *Harpers*

Here's something to ponder. Why is it laudable to be a debtor and lamentable to be a creditor? Why do we reward debt and punish credit?

If you owe money, the interest on your debt is tax-deductible. But if you are owed money, the interest you collect is taxable.

In an age of inflation, you might think the government has got it exactly wrong. Our tax laws encourage borrowing and discourage saving. This leads to more inflation.

The policy of encouraging debt dates from a time when professors and government officials believed that there was too much saving in society, and not enough spending.

Today the situation is reversed. Almost everyone now agrees that

we don't save enough. Government policy should keep up with the times. Saving should be encouraged. Not bludgeoned with taxes.

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## Ideas, Inc.

by David Kelley,

Professor of Philosophy,  
Vassar College

If the government said that certain ideas could not be taught or expressed, most intellectuals would be up in arms. They believe in intellectual freedom. But when the government comes bearing gifts of research grants, most intellectuals don't see that the threat to freedom is just as great.

Take an analogy. The First Amendment says the government cannot suppress any religion. But is also says the government can't support any religion either. Why not? Because the Founding Fathers knew that the power to sub-

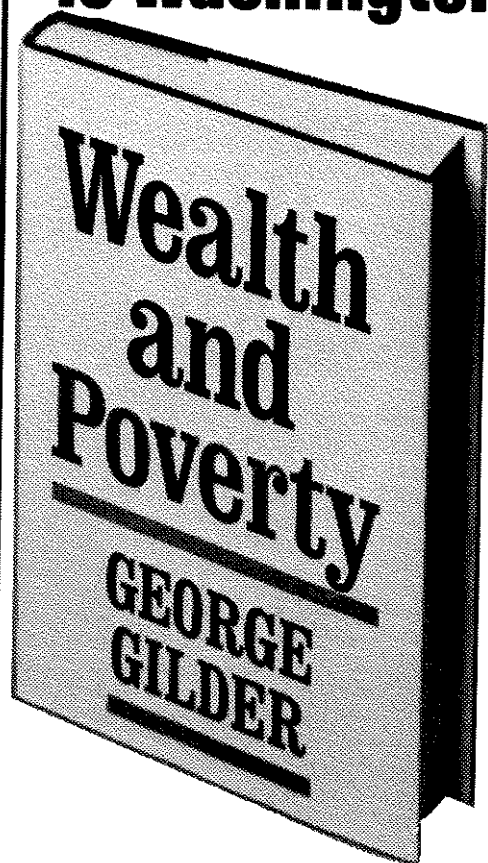
sidize is the power to control.

The same is true in the realm of ideas. The National Endowment for the Humanities, the National Science Foundation, and other grant programs use tax money, and thus drain the economy of private sources of support. Intellectuals must turn to Washington. But the bureaucrats can't waste the taxpayers' money on every hare-brained research proposal. So they turn to the experts for advice. That is: the established authorities in each field decide what ideas in their field can be pursued. The result? An Establishment gets established, and intellectuals who want to succeed must trim their sails by the winds that blow through Washington.

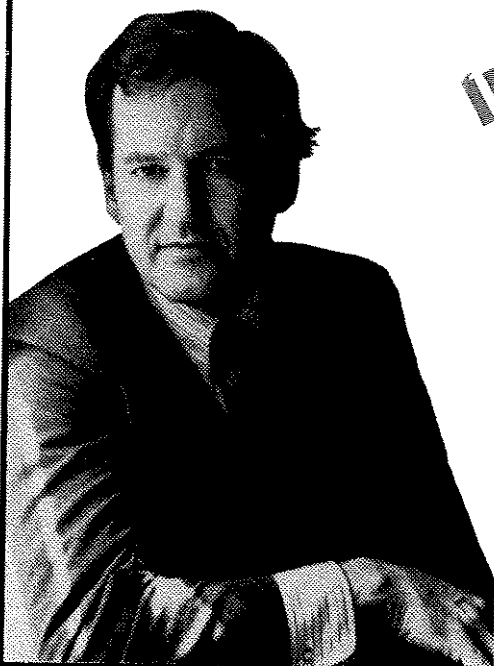
Freedom would be better served if the government stayed away from ideas, in the same way, and for the same reason, that it must stay away from religion.

(Continued on page 12)

# Is Washington Going Capitalist?



Program Director at the International Center for Economic Policy Studies in Manhattan, Mr. Gilder has written speeches for five presidential campaigns and is frequently called to testify before congress on economic matters. He is the author of five books and has written articles for many publications including *Harpers*, *Forbes*, *Commentary*, *The Wall Street Journal*, and *National Review*.



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## ICEPS REPORT

### ICEPS's Radio

(Continued from page 10)

#### The Not So Inscrutable East

by **Alfred Kingon**,  
*Editor-in-Chief,*  
*Saturday Review*  
& *Financial World*

For this American, a trip to Taiwan and Japan was a sobering experience.

First Taiwan, a so-called backward nation, is developing so rapidly that serious observers believe that they will do in twenty-five years what Japan has done in fifty.

Then there is Japan, the mature industrial giant, who in a half century has become one of the principal economic powers on earth.

Both are resource short in every way. And it is hard for an American, making such a visit, to accept what his eyes and ears tell him without being overwhelmed with the realization that we have what they don't: we have the oil, we

have the coal, we have alternative energy resources, we have an abundance of food, waterpower and capital. We have the military might.

Why is it that they apologize for not having what we have and yet they are doing what we do not seem to be able to do? The answer, of course, lies in government policies and programs.

We have it all and we are letting it slip away. Japan and Taiwan have nothing... but our economic heritage.

#### Truth In Language

by **Robert Hessen**,  
*Research Fellow,*  
*Hoover Institution*

Have you noticed that in recent years welfare recipients are being called "clients," and that welfare payments are often referred to as "social dividends?" Don't be too quick to assume that these represent harmless errors or mere euphemisms. I think the significance is far deeper.

First of all, the use of these ex-

pressions evades the fact that a client is someone who makes a purchase using wealth he has earned, rather than someone who is the recipient of a gift. Similarly, a dividend means a return on a productive investment, rather than an involuntary gift from those who have actually earned the money.

We are witnessing a campaign to invert the meaning of concepts. But what exactly is the danger if this campaign succeeds? The inversion of concepts serves to create confusion and to blur distinctions between things which are fundamentally different.

It's no accident, I think, that in the totalitarian society portrayed in George Orwell's novel *1984* the role of the Ministry of Truth is to manipulate public opinion into believing that "Slavery is Freedom" and that "War is Peace." So the next time you hear someone reversing or inverting the meaning of familiar concepts, speak up. By defending precision in language, you'll be helping to preserve liberty. □

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