# Policy Report

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## Inflation, Stagflation, and Politics

by Gerald P. O'Driscoll, Jr.

With respect to inflation, old truths are rediscovered far more often than new ones are uncovered.* What is usually presented as new in discussions of inflation is almost always wrong. What truth there is to be said about inflation has generally been said long ago. Professor Fritz Machlup has recently commented on why discussions of inflation are so often confused. Noting an appalling lack of precision in these discussions, Professor Machlup adduces nine different but relevant types of inflation, namely, inflation of (1) the money stock, (2) monetary reserves and central bank money, (3) bank credit, (4) the government's budget, (5) the budget deficit, (6) total demand, (7) wage rates, (8) product prices, and (9) profit and profit rates.[1]

In his article, Professor Machlup uses these categories to analyze the different effects on employment of these different kinds of inflation. My concern in this essay is how the indifferent and casual use of "inflation," without specifying the meaning of the term, creates such substantial confusion that our understanding of the current inflation is impeded. Unless we can agree on the meaning of "inflation," the term should be employed only when qualified by type.

It might be thought that when it is not qualified, "inflation" refers to "price inflation." But this is certainly not true. For instance, when businessmen refer to "inflation," they almost invariably mean wage rate inflation; they are almost never concerned with profit or profit rate inflation. And similar differences in usage arise when such other people as workers, bankers, and government officials refer to inflation. It is no wonder that there are so many conflicting remedies for "inflation"—there are so many aspects or types of the phenomenon.

> **"Defining inflation in terms of effects instead of in terms of causes is a strategic error... [which] appears to make the causal question an open one."**

Aside from the ambiguity and confusion previously mentioned, there are other objectionable features of modern discussions. Inflation of all types is generally spoken of, even by economists, in terms of *effects* of more fundamental phenomena. Defining inflation in terms of effects instead of in terms of causes is both a comparatively recent innovation and a strategic error. This approach to defining inflation not only directs attention away from the causes, but also appears to make the causal question an open one.

To explain, I focus on price inflation and ask the question: What are the economically conceivable causes? Some commentators have argued that a general rise in wage rates can cause general price inflation. This "wage inflation" is often referred to as "cost-push inflation." This argument, attributed first to Adam Smith, was refuted long ago by David Ricardo. He observed that a truly general rise in wage rates would cause the prices of goods produced by relatively labor-intensive methods of production to rise, but at the same time the prices of goods produced by relatively capital-intensive methods would fall. This general increase in wages would *not* represent price inflation, for there would be no general rise in prices, but only a change in the structure of prices. The contention that, other things remaining the same (including the money supply), a rise in wage rates can cause a general rise in prices belongs to the category of sheer intellectual error.

"Inflation" implies a sustained rise in the thing being inflated.[2] The way in which such a sustained rise can take place must be explained if a theory of inflation is to be considered satisfactory. In the case of wage rate inflation, it is necessary to specify the cause of the sustained rise in wages. Suppose this rise is attributed to "labor monopoly." For the rise in wage rate to be sustained, there would have to be a continual increase in such monopoly power. This is implausible over any sustained period of time.[3] This monopoly power comes at the expense of other groups in society, and the power of labor—or any other monopoly—is always measured *relative* to the power of other groups in society. Once power is understood to be relative, it is easy to see that it is impossible for one group in society to sustain a continual increase in its power.

(Cont. on p. 3)

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*EDITORIAL*

# Legalized Counterfeiting?

by Richard E. Wagner

It is easy to understand the overwhelming support for laws against counterfeiting. Counterfeiting is a form of theft, which operates through debasing the value of money. *Monetary debasement is the essence of counterfeiting.* The value of money is the quantity of goods and services that money can buy. As the amount of money in circulation is increased, each dollar comes to command less output than it would otherwise have commanded. This monetary debasement shows up as rising prices throughout the economy. If counterfeiting increases the stock of money by 10 percent, the value of money can be expected to decline by roughly 10 percent. Someone who has $1,000 before this counterfeiting takes place will still have $1,000 afterwards. However, this $1,000 will now be able to buy only what could formerly have been bought with $900. Counterfeiting is an act of theft, of $100 in this instance. The only difference between outright theft and counterfeiting is the inessential one that a thief will filch $100 from a victim's pocket, whereas a counterfeiter, without touching the victim's money, debases its value by an equivalent amount.

While the federal government is supposed to protect us from counterfeiting, it has not done this very well. During the past 10 years, about $160 billion of new money has been put into circulation. With this near-doubling of the stock of money, the value of money has been debased by about 50 percent. Upon inspection, it is easy to see why the federal government has not protected us from this debasement. Under our present monetary system, the federal government has the power to create money at will; it is also the prime beneficiary of the monetary debasement. The contribution to monetary debasement caused by private counterfeiters is but a pittance in comparison with that caused by the federal government. It is as quixotic to think that the federal government will protect us from counterfeiting as it is to think that a fox will guard a henhouse.

Monetary debasement is monetary debasement, regardless of whether it is caused by private or by government printing presses. As Professor O'Driscoll explains in his accompanying article, rising prices are always a monetary phenomenon. Because the production of money is essentially a government monopoly, rising prices are also equally a political phenomenon. Government runs its printing presses for essentially the same reasons as do private citizens—to increase command over economic resources. It is well recognized that expenditure programs are used to increase political support. Counterfeiting enables government to pursue political support through expenditure programs, without having to face the opposition created by the taxes that otherwise would be required to finance those expenditures.

In terms of political support, there is one important difference between the direct theft of money and the indirect theft through counterfeiting. Government could directly take away money by imposing a tax on money. Alternatively, by printing new money and slipping it into circulation, government could confiscate the value of money rather than the money itself. Unlike a direct tax on money, however, the confiscation appears to be done not by government but by business, with the vehicle of confiscation being the rising prices of products that monetary debasement signifies. Consequently, it becomes easier politically to deflect attention from fighting counterfeiting by government to fighting the rising prices charged by producers.

In its policy toward monetary debasement, in which acts of debasement are prosecuted selectively, depending upon who (private citizens or government) does the debasing, our government is applying a double standard. The reason for the double standard is, of course, that government wishes to use its monopoly over money to promote its political purposes. Nonetheless, monetary debasement is either fraudulent or it is not, and in whose name the printing presses roll has nothing to do with this judgment. To say that we should be prohibited from debasing the currency while government is able to do so is equivalent to saying that we should be prohibited from committing burglary while government is able to do so. It is time we rejected this double standard about currency debasement, preferably by replacing government monopoly with competitive forces in the production of money and credit. Only in this way will we be able to bring the rising prices, along with the difficulties they entail, under control. ■

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## Inflation (Cont. from p. 1)

Arguments that point to rises in the prices of inputs, be they oil, energy, or other goods, are similarly flawed. For instance, a general rise in crude oil prices will eventually cause the prices of goods produced by oil-intensive methods to rise. At the same time, however, the prices of goods produced by other methods must fall. As with the rise in wages, there will be a change in the structure of prices, with some rising and others falling. Since the common discussions of wage and price inflation confuse the relative prices of goods and services and the general level of prices (an aggregate statistic), as well as cause and effect, it is necessary to turn elsewhere for a satisfactory explanation of inflation.

### Money and Prices

We are left with money and credit as the source of price, wage, and profit inflation. For our purposes, money and credit can be aggregated. Price inflation is easily seen to be merely the effect of monetary inflation. A sustained rise in prices can result only from either a sustained increase in the supply of money, which means more money chasing the same supply of goods, or a sustained decrease in the demand for money, which means an increase in people's desired rates of spending. We can almost at once dismiss the possibility of a sustained fall in the demand for money. This case, while logically conceivable, is practically impossible. There are practical limits to the ability of people to decrease their cash reserves. Once these limits are reached, the demand for money cannot continue to fall.[4]

Nonmoney financial intermediaries (e.g., savings and loan associations) are certainly important in that they permit individuals to substitute other liabilities for money, narrowly defined, thus decreasing the demand for money. We have certainly witnessed *long-term* developments that have gradually decreased the demand for money. Such developments, however, cannot be viewed as a cause of inflation. Over a cyclical expansion, society's nonmoney financial institutions are essentially

**"A sustained rise in prices can result only from either a sustained increase in the supply of money...or a sustained decrease in the demand for money."**

"given"; such institutions would thus have little impact on inflation. While the supply of credit does expand (and contract) relative to the supply of money (or the monetary base) over the business cycle, there are strong limits to this process. Moreover, analyses of the actual processes of monetary expansion show that such changes in the demand for money simply reinforce prior increases in the supply of money. Hence, one is on firm ground in treating credit as a structure erected upon the supply of money, and an explanation of the cause of price inflation must focus on the role of money creation.[5]

In understanding inflation, then, one cannot begin better than by repeating the verity that price inflation is always a monetary phenomenon. It would have been much better had we kept the classical definition of inflation as a (sustained) expansion of the supply of money. While we perhaps cannot turn back the clock on linguistic developments, we can point out the loss involved in shifting emphasis from causes to effects.

### The Inflation Mechanism

Up through the nineteenth century, economists focused on "simple inflation," in which an influx of bullion led eventually to roughly an equiproportional rise in the prices of all goods and services. This was classic money stock inflation, reflecting the historical experience of the time. It was a theory for a world in which "cash and currency" were the dominant part of the money supply, and in which metallic money circulated widely. The institutional framework of this period was generally consistent with an equiproportionate rise in all money prices and money. In the early nineteenth century, Ricardo captured this world in his essay, *The High Price of Bullion*. His was a classic statement of the quantity theory, virtually unqualified by the complications of credit and distribution effects. Three characteristics of the quantity theory dominated nineteenth century monetary discussions: (1) the emphasis on long-run effects, (2) the equiproportional increase in all prices, and (3) the equiproportional increase in prices and money.

(Cont. on p. 4)

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## Inflation (Cont. from p. 3)

Although the third characteristic of the quantity theory has been treated in twentieth century discussions as its most important aspect, it was always the least essential and most easily dispensable. Indeed, by the mid-nineteenth century, economists were emphasizing how changes in the demand for money would destroy any equiproportional relation between prices and money. The first two features—emphasis on the long run and the presumption of an equiproportional increase in all prices—are linked and, I think, are essential features of the quantity theory.

By the end of the nineteenth century, simple inflation was no longer the prevailing paradigm. Fundamental changes in the institutions of banking and credit rendered inapplicable the proposition that monetary expansion would bring about an equiproportional increase in all prices. This central proposition of the quantity theory was no longer valid. In his criticism of the quantity theory, Knut Wicksell fathered an alternative monetary tradition that provides a more satisfactory basis for understanding inflation today. The tradition emphasizes the effects of monetary expansion on *relative* prices and profitability of particular firms and industries.

Wicksell independently rediscovered an approach that can be traced back to the eighteenth century economist Richard Cantillon, and to Henry Thornton, a contemporary of Ricardo. They were concerned with the transmission mechanism of monetary and credit inflation into price, wage, and profit inflation. This subject is of diminished importance for the quantity theory, with its focus on long-run *equilibrium*. Though not denying the essential and undeniable truth of the quantity theory—the dependence of general price, wage, and profit increases on monetary expansion—these writers focused on the precise character of the inflation process.

The monetary tradition begun by Cantillon emphasized how monetary change alters the structure of prices, which, in turn, would alter the pattern of economic activity. With Wicksell and his intellectual heirs, the Austrian School, Cantillon's ideas were coalesced into a comprehensive monetary theory of cyclical fluctuations. Money supply changes appear first as inflation of bank credit, followed by inflation of monetary reserves and central bank credit. Monetary expansion thus initially lowers interest rates below what they would otherwise be. As Wicksell's followers emphasized, this increases the anticipated profitability of relatively capital-intensive forms of production. The short-run gains of monetary expansion will accrue to firm owners in industries producing capital goods geared to longer production processes, as well as to their employees and those who supply goods to these beneficiaries.

"With Wicksell and his intellectual heirs, the Austrian School, Cantillon's ideas were coalesced into a comprehensive monetary theory of cyclical fluctuations."

Thus, we have a monetary theory of price inflation that emphasizes short-run distributional effects and allocational changes. Even though total output may remain constant, the inflationary process will bring about significant allocational change. Therefore, the consequences of monetary expansion cannot be gauged simply by referring to changes in total output.

To Cantillon's, Thornton's and Wicksell's theories, Professors Mises and Hayek added an analysis of the effects of monetary instability on the coordination of economic activities.[6] In the most general terms, the price and interest-rate signals facing savers and investors are altered by monetary expansion. The money and credit expansion changes the structure of prices, as noted above. Consequently, investment in some inputs and in certain capital-producing activities becomes profitable, with other, previously profitable, activities becoming unprofitable. But the new pattern of consumption and production is inconsistent with such underlying conditions as preferences for saving vis-a-vis consumption. This inconsistent pattern of production can be sustained only so long as entrepreneurs continue garnering ever larger quantities of real resources. But this can happen only so long as the rate of monetary inflation continues to *accelerate*.

In this inflation process, just as some entrepreneurs' and some workers' incomes rise faster than the prices of these goods they purchase, so too must the incomes of some groups lag behind prices. These latter people must curtail their purchases. This curtailment is referred to as "forced saving," to indicate that these people in effect finance the increased investment of certain entrepreneurs. This process of increased investment through monetary expansion cannot continue without periodic interruption. Once they are deprived of ever larger sums of credit-money, entrepreneurs must curtail their investments and release resources to the rest of society (including other businessmen). Profit inflation slows relative to wage inflation. The investments in question are thereby revealed to be *malinvestments*. What initially seemed to be capital creation eventually becomes real capital destruction. One manifestation of this capital destruction is recession. The destruction of capital reduces the demand for labor, thereby increasing unemployment. *While monetary expansion may initially increase the demand for labor, its ability to destroy capital means that a period of rising unemployment will also result.*

*Stagflation*—rapidly rising prices and stationary or falling real income—is not a new phenomenon, but the final stage of the monetary inflation process. Even as real readjustments to the previous monetary expansion begin, absolute prices may continue increasing. (We live in an age when money prices rise but seldom fall.) During this readjustment process, the structure of production reverts to what it would have been in the absence of the inflation. The malinvestments are rectified as producers turn to less capital-intensive methods of production and increase their production of consumer goods. This readjustment will temporarily result in higher unemployment. If the economy continues with high rates of monetary growth, the high unemployment will be accompanied by ever higher nominal prices—stagflation. What is masked in the process are the important changes in *relative* prices—price changes more evident in years past when some prices would fall in depressions. Just as the basic truth of monetary explanations of price inflation is vindicated, so too is stagflation revealed not to be a qualitatively different problem from that faced in the past.

The market system provides a mechanism, which no other known system can duplicate, for coordinating economic activities. This vital coordination function is interfered with by the various inflations, each of which is an aspect of a single, destructive process. It is prosaic but true that this discoordinating and capital-destroying inflation process slowly undermines the economic system itself.[7]

Without denying that there is a basic, long-run relationship between money and prices, wage rates, and profits, I have emphasized the allocational and distributional effects of monetary and credit expansion. In so doing, I have employed microeconomic analysis rather than the study of macroeconomic aggregates. Indeed, in this modern theory of monetary inflation, there is no point in speaking of "the price level." Different prices are changing at different rates (and even in different directions) over any subperiod. *What is important about inflation is its impact on changing the pattern of prices, for it is these changes that produce malinvestment and capital destruction.* An average of prices—the price level—is of little interest or value in understanding the impact of monetary expansion upon our economic well-being.

### Recent Developments

In analyzing monetary inflation, I have ignored the question of why it occurs at all. This is a separate but equally important question, an answer to which would entail an examination of the political process. Just as price inflation is always a monetary phenomenon, so too is monetary inflation in its modern form always a political phenomenon. We cannot fully understand the monetary process without recognizing and comprehending its political origins. Under prevailing fiduciary money systems, control over money is principally a political matter, determined through the interplay of the Congress and the Federal Reserve System. The forces governing monetary expansion must eventually come to be understood in terms of their political origins. These political origins reflect the potential of monetary expansion to redistribute income covertly and to benefit politically favored groups over genuine producers and entrepreneurs. Understanding this latter process is crucial to understanding the whole inflation process, from monetary expansion to capital consumption and unemployment.

(Cont. on p. 7)



# INFLATION MONITOR

A regular feature of *Policy Report*, the "Inflation Monitor" reports on the effects of inflation as a monetary phenomenon and demonstrates its distorting influence on the structure of relative prices in the economy.

| | PERCENTAGE CHANGE (ANNUAL RATE) | | | |
|---|---|---|---|---|
| | Latest 1 month | Latest 3 months | Latest 6 months | Latest 12 months |
| M-1 | 0.6 | −2.0 | −1.0 | 5.0 |
| M-2 | 17.3 | 8.2 | 6.2 | 7.7 |
| M-3 | 16.8 | 8.6 | 7.8 | 8.6 |
| **PRICE OF GOLD** | 0.0 | 64.8 | 27.5 | 24.9 |
| **CPI-URBAN WAGE EARNERS** | 12.6 | 12.2 | 9.7 | 9.4 |
| COMMODITIES, LESS FOOD | 13.5 | 12.4 | 10.7 | 8.6 |
| FOOD | 14.0 | 17.5 | 13.8 | 11.8 |
| SERVICES | 10.7 | 10.0 | 8.5 | 9.0 |
| **FINISHED GOODS** | 8.0 | 12.3 | 11.4 | 9.5 |
| CONSUMER GOODS, FOOD | 14.8 | 17.9 | 16.7 | 11.2 |
| CONSUMER GOODS, NON-FOOD | 12.8 | 12.4 | 10.4 | 9.4 |
| CAPITAL EQUIPMENT | 6.8 | 9.3 | 9.0 | 7.9 |
| **PRODUCER PRICES, BY STAGE OF PROCESSING** | | | | |
| COMMODITIES | | | | |
| *Crude materials, non-food* | 25.2 | 25.2 | 22.3 | 16.1 |
| *Intermediate materials, less food* | 12.9 | 12.6 | 11.4 | 8.7 |
| *Capital equipment* | 6.8 | 9.3 | 9.0 | 7.9 |
| *Consumer finished goods, less food* | 12.8 | 12.4 | 10.4 | 9.4 |
| FOOD | | | | |
| *Farm products* | 24.1 | 30.7 | 24.4 | 15.7 |
| *Consumer foods* | 14.8 | 17.9 | 15.6 | 11.3 |

All figures are taken from the *Chartbook on Prices, Wages, and Productivity* (U.S. Department of Labor), *Monetary Trends* (Federal Reserve Bank of St. Louis), and the *Wall Street Journal*.

# ✓Washington Update

✓The synthetic fuels industry—shale oil, coal gasification, tar sands, alcohol, and similar technologies—is lining up for massive subsidies from the federal government. A Senate proposal would spend $75 billion to develop a large synthetic fuels industry by 1990; a House bill reported by a subcommittee of the Education and Labor Committee (irrelevance and committee jurisdiction seem to be of no concern on this issue) would spend $205 billion in subsidies, loans, and loan guarantees. The subcommittee is chaired by Carl Perkins of Kentucky, who sits on acres of coal. The most modest proposal, which probably will have been voted on by the end of June, was reported by the House Banking Committee. It will probably be souped up on the House floor from its now estimated price tag of $12 billion-plus to something like $40 billion before final passage by the House. This version is tied to the Defense Production Act, a Korean War emergency powers act, and it retains the extraordinary powers granted to the President in 1950.

✓The State Department cut off shipment of all arms and ammunition to the Somoza government in Nicaragua last September 22, and now refuses to lift the embargo despite reports that the government is running out of ammunition.

✓The Administration and its friends in the Congress are lobbying hard for most-favored-nation status and subsidies for China and the Soviet Union. Several bills have been introduced in both houses that would liberalize the rules governing trade with these and other nonmarket economy countries. Major corporations are lining up behind the drive, for they stand to have their investment in such trade insured by the American taxpayers. Since the Russian Revolution, the U.S. government has made billions of dollars worth of loans and loan guarantees both to agencies of socialist governments and to corporations trading with them. China's ambitious economic development program, however, will strain existing subsidy programs to the limit.

✓Amtrak now turns away 750,000 potential riders per month and cannot answer 1.5 million callers per month. In fact, it was unable to answer as many calls during May of 1979 as it did during May of 1978, although 300 percent more calls were placed. The pressure to rescind the proposed cuts of Amtrak trains has become so great that it is very doubtful that any trains at all will be cut. More likely, Amtrak will be given funds to purchase new cars and equipment and to hire more employees.

✓The Administration's voluntary-mandatory wage and price control program received a modest setback when D.C. District Court Judge Barrington Parker declared the program illegal. Despite the decision, the program continues, and the government is appealing the decision. Meanwhile, Barry Bosworth, director of the Council on Wage and Price Stability, has announced his intention to resign at the end of the summer, and a growing number of liberals in Congress are lobbying for comprehensive price controls.

✓The flight of member banks from the Federal Reserve System continues. The House Banking Committee reported a bill in May intended to stop the exodus by forcing nonmembers to hold reserves with the system and compelling all financial institutions to report any and all statistics and information required by the Federal Reserve Board. The bill, largely written by the staff of the Federal Reserve, also would remove the necessity for holding collateral for all Federal Reserve notes, and would actually lower the required reserves by about 50 percent.

✓The outlook at this point is that the legislation implementing the Panama Canal treaties of 1977 will pass the House early this summer, despite the evidence heard by the House in secret session concerning the terrorist activities of the Panamanian government. The Senate will have to act quickly, and yet another hurdle must be faced: a conference on the Senate and House versions, which are sure to differ. Getting the legislation completed before the treaties go into effect on October 1 might be a squeaker. The Administration is pulling out all stops in its efforts to get the legislation through the House.

✓Economic statistics continue to baffle some of the best government economists who cannot decide which way the economy is heading. The confusion apparently stems from the fact that the attitude of many Americans toward rising prices has changed. Formerly they tended to restrain their buying in anticipation of the end of inflation. After several years of double-digit price rises, that hope has apparently dissipated. Now Americans are buying before prices go up more, and are going into debt to do so. Hence the conflicting signals of declining real wages, declining productivity, and record-breaking consumer debt and aggregate demand.

✓The Senate split its draft registration bill from its military procurement legislation at the behest of opponents of the draft. House opponents hope to do the same with the companion House measure, H.R. 4040, before the House votes on the measure in July.

✓Solar energy, like synthetic fuels, has become fashionable on Capitol Hill. The Subcommittee on Domestic Monetary Policy of the House Banking Committee reported a bill on June 20 that would set up a solar energy bank to subsidize lenders who make low-interest loans for the purpose of installing solar energy equipment on new or existing buildings. The President has endorsed the bill. The Subcommittee reported the bill despite the fact that it would subsidize the installation of solar-powered swimming pool heating systems and other similar devices. Meanwhile, our domestic monetary policy is ignored.

✓A windfall profits tax will probably pass the House in July. The Ways and Means Committee reported a version with a tax of 70 percent of increased revenue in mid-June. ■



## Inflation (Cont. from p. 5)

### FOOTNOTES

*This essay is based on a lecture delivered at a Rutgers University Conference on Inflation in April 1979. The helpful comments of Axel Leijonhufvud and J. Huston McCulloch are gratefully acknowledged.

[1]Fritz Machlup, "Different Inflations Have Different Effects on Employment," *Banca Nazionale del Lavoro Quarterly Review*, December 1978, p. 291.

[2]Ibid., pp. 292–93.

[3]When economists speak of wage rate inflation as causing price inflation, they almost invariably assume (explicitly or implicitly) that monetary authorities accommodate or ratify the wage rate increases by credit and monetary inflation. Regrettable though this technique may be, the analysis is free from the faults mentioned in the text.

[4]Machlup, op. cit., p. 292.

[5]We are currently witnessing a major technological change in banking—Automatic Funds Transfer—that may produce an unusually sudden change in the *conventionally defined* money supply. This *once and for all* change may cause us to revise our concept or definition of money. And, depending on one's definition of money, the change could show up either as a once and for all decrease in money demand or as a permanent increase in the credit structure supported by a given monetary base. Though clearly a complex banking problem, it does not affect the substance of what I have just said.

[6]Ludwig von Mises, *The Theory of Money and Credit* [orig. German ed., 1911] (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1971); Friedrich A. Hayek, *Prices and Production*, 2nd ed. (London: Routledge and Kegan Paul, 1935).

[7]I have not even considered here the effects of the tax system on capital accumulation during periods of rapidly rising prices. Such effects as insufficient depreciation allowances are additional to the problems discussed above.


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# "To be governed..."

**And thus spake the Czar**

"[Energy Secretary James R.] Schlesinger told the International Assn. of Energy Economists that their profession's theories are not always realistic and that reliance on the 'free market' for solutions to energy shortages may be a kind of 'idolatry.'"

—*Los Angeles Times*, June 3, 1979

**Uncommon sense**

"A federal judge Sunday refused to ground the nation's DC-10 aircraft, pointing out that there is nothing that forces passengers to fly aboard the controversial jetliners if they do not want to."

—*Los Angeles Times*, June 4, 1979

**Death...**

"The National Highway Traffic Safety Administration... has estimated that the cost of a life lost in a motor vehicle accident in 1975 was $287,175.

"That includes $211,820 in lost production and consumption in the marketplace; a $63,545 loss to the home, family and community; $275 for the hospital; $160 for doctors and $130 for the coroner; $925 for a funeral; $2,190 for legal expenses; $295 for handling insurance claims; $80 for accident investigation; $3,685 in losses to others; $3,990 in car damages, and $80 for delay of traffic."

—*Los Angeles Times*, May 25, 1979

**...and taxes**

"In fiscal 1978, tax payments to state and local governments passed the $200 billion mark for the first time, after rising 10 percent over the previous year and 188 percent over the decade, according to Tax Foundation estimates. At $202.6 billion in 1978, state-local taxes were $18 billion higher than in 1977 and $132 billion above their 1968 level."

—*Monthly Tax Features*, January 1979
(Tax Foundation, Inc., Washington, D.C.)

**We can see your point...**

"Too often, business's political positions are opportunistic and unprincipled, and even subversive of the free market. Few traits are as repugnant as hypocrisy, and it seems likely that the incessant pleas for subsidies and protection from competition—bankers' opposition to removing ceilings on interest paid to depositors and import quotas on color televisions are but two of many—have done as much as all the Naderite diatribes to undermine the credibility of 'free' enterprise."

—A. F. Ehrbar in
*Fortune*, June 4, 1979

**...and here's another example**

"In 1971, the newly formed Occupational Safety and Health Administration (OSHA) issued a regulation (since repealed) that in effect prohibited the use of ice in drinking water. Not surprisingly, this regulation became the favorite of anti-Washington speechmakers. If you think about it for a minute, you will conclude that it is highly unlikely that some dumb OSHA employee sat down in 1971 faced with a clean sheet of paper and thought up the idea of prohibiting the use of ice in drinking water. Stupidity alone cannot account for it.... So where did this regulation come from?

"Before 1970, industry used all of its resources to try to keep the Federal government out of the health and safety field. When it became apparent that total resistance was futile, industry spokesmen sold Congress on the idea of requiring OSHA to use existing 'voluntary industry standards' as the basis for the new Federal regulations.

"The drinking-water rule and almost all the so-called nit-picking rules used by business leaders and politicians to ridicule Federal bureaucrats came from the industries' own standards."

—Fred Emery in
*Newsweek*, May 28, 1979

**Pork-barrel politics**

"Susie, a 900-pound pet pig, is not too happy with federal regulations that force school garbage down a mechanical disposer instead of into her.

"For three years, Stanley Cowell, the pig's owner, each day collected lunch scraps saved by the [Cummington, Mass.] elementary-school cook. Cowell carried the goodies home in a can and fed them to Susie....

"But all that is over.

"Mrs. Cowell said the family recently got a note from the cook explaining that school administrators thought feeding the garbage to Susie was in violation of federal regulations, which state that leftover school food must go into a mechanical disposer."

—*Los Angeles Times*, Apr. 9, 1979

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