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The Mathematics of Liberalism: The Zero Sum Society by Lester C. Thurow

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THE MATHEMATICS OF LIBERALISM

THE ZERO-SUM SOCIETY. BY LESTER C. THUROW.
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Certain phrases have become infamous as confessions of the intellectual bankruptcy of the utterer. To "Peace in our Time"[1] and "Light at the End of the Tunnel"[2] is now added "The Zero Sum Society"—the title of a "radical" book by Lester C. Thurow,[3] acclaimed as the foremost "liberal" economist of the 1980's.[4] Ironically, however, the basic theme of the book is political rather than economic because of Thurow's realization that the economic problems which confront America today—inflation, energy, growth and environment—have proved insoluble more for political than for economic reasons. Thurow sees the political impasse of the 1970's as reflecting the realities of a zero-sum society in which measures which help one group (and perhaps society as a whole) come at the expense of another group, making politics in essence a zero-sum game. His prescription for the political impasse is a reawakening of the old liberal conscience to resolve the various economic problems in a manner which will redistribute wealth from the rich to the poor.

One deficiency in Thurow's analysis and proposed solutions is a curious lack of historical perspective as to the causes of the current political stalemate. Politics is the science of who gets what,

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1. Neville Chamberlain, following his return from Munich, Germany, September, 1938.
2. Robert McNamara, following his tour of Vietnam, March, 1967.
3. L. THUROW, THE ZERO-SUM SOCIETY (1980).
4. Shapiro, *The All-Stars of the New Economics*, in TWA AMBASSADOR, Mar. 1981, at 47.

when, where and how.[5] Under this definition, politics has been and always will be a zero-sum game to some degree. Indeed, the impasse which results from the zero-sum aspect of politics is more prevalent in democratic societies than in totalitarian ones because democratic societies are more inclined by structure to implement not the will of a diffuse majority but rather the desire of a unified minority.[6] This tendency is even more prevalent in the United States where a judiciary far more imperial than any President may often thwart the wishes of the legislators elected by the majority. Indeed, for this reason the central task of American political leadership has always been to organize a coalition sufficiently strong to overcome the minority opposition in the legislature and the courts and to implement the public will.

The organization of such a coalition has never been easy. In recent years, however, certain developments have made the formation of this coalition more difficult if not impossible. The destruction of political machines, one of the accomplishments of American liberalism in our generation, is among these developments. Another is the increasing balkanization of American society which has resulted from the tendency of liberalism to encourage any and all groups to seek political action to effectuate their interests. Indeed, the danger of this development has been recognized by one of the most perceptive liberals, Sar Levitan, who has acknowledged that "one of the problems of the Great Society has been its spawning of vested interest groups championing programs that rational liberals find difficult to defend . . . [and which] are difficult to support in a society with limited expanding resources."[7] President Reagan's success indicates, however, that the stalemate is susceptible of political resolution, albeit in a manner not anticipated by Thurow.

A further deficiency in Thurow's work is frequent factual inaccuracies. For example, Thurow contends that the excessive regulation which has characterized American society has resulted not from any ideological commitment but from the perceived exigencies of the moment.[8] Thus, he explains the origins of the Employee

5. M. IRISH & J. PROTHO, THE POLITICS OF AMERICAN DEMOCRACY 12-13 (4th ed. 1968).

6. *See generally* R. DAHL, PLURALIST DEMOCRACY IN THE UNITED STATES (1967).

7. Levitan, *Address to Fourth Annual Social Workers in Politics Conference*, DAILY LAB. REP. (BNA), Apr. 13, 1981, at F-2.

8. L. THUROW, *supra* note 3, at 136.

Retirement Income and Security Act (ERISA):[9] "A very substantial number of elderly American workers were not going to receive a pension check they had been counting on because the firm (and hence the pension fund) into which they had contributed had gone broke before they reached retirement age."[10] Congressman Wolpe (Dem. Michigan), however, who is seeking further protection for those who suffered such losses prior to the enactment of ERISA, estimates their number at 83,000[11] which hardly constitutes a "very substantial number of elderly American workers."

Similarly, while Thurow states, "OSHA [The Occupational Safety and Health Act[12]] arose in the context of dramatic industrial accidents (mine disasters in West Virginia, kepone in Virginia) . . . ,"[13] the Farmington mine disaster in 1978 (to which he presumably makes reference) was responsible for the enactment of the Coal Mine Safety Act[14] and its successor, the Mine Safety and Health Act,[15] but not the enactment of OSHA.[16] The kepone problem in Virginia to which he refers occurred in 1975[17]—some five years after the enactment of OSHA.

Unfortunately, Thurow's factual errors are not confined to the relatively picayune matters of the type recited above. They permeate his discussion of the steel industry, a favorite whipping boy, which he perceives as a declining industry whose fall is due primarily to mismanagement. According to Thurow, the steel industry has deliberately ignored modern technology such as that represented by the basic oxygen process and has "misinvested millions on open-hearth furnaces when it should have been building oxygen furnaces."[18] Indeed, in Thurow's view, the survival of the steel industry has been due to pervasive government subsidies in the form of import restrictions[19] and to the fact that despite a low rate of

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9. Employee Retirement Income Security Act of 1974 (ERISA), 29 U.S.C. § 1001 (Supp. III 1979).
10. L. THUROW, *supra* note 3, at 137-38.
11. PENSIONS AND INVESTMENT AGE, Apr. 13, 1981, at 6.
12. Occupational Safety and Health Act of 1970 (OSHA), 29 U.S.C. § 651 (1970).
13. L. THUROW, *supra* note 3, at 137.
14. Federal Coal Mine Health and Safety Act of 1969, 30 U.S.C. § 801 (1970).
15. Federal Mine Safety and Health Act of 1977, 30 U.S.C. § 801 (Supp. III 1979).
16. COMP. GEN., LOW PRODUCTIVITY IN AMERICAN COAL MINING: CAUSES AND CURES 35, in GAO REP. B-202134, EMD-81-17 (Mar. 3, 1981).
17. NEWSWEEK, Apr. 3, 1978, at 56.
18. L. THUROW, *supra* note 3, at 132.
19. *Id.* at 77.

return on investment, it is able to generate significant internal earnings.[20] Thurow's solution to mismanagement in the steel industry is "disinvestment,"[21] a euphemism for bankruptcy, which would then free up resources for use in more profitable industries.

Now, there is little doubt that the American steel industry lags behind the Japanese from the standpoint of technology. And there is even less doubt that the future of the American economy will depend less on heavy industry and more on computers and electronics. Nevertheless, to explain the decline of the American steel industry as a repeat of the Charge of the Light Brigade is to indulge in oversimplification. Why have American steel manufacturers lagged behind the Japanese in switching from open-hearth steel making to basic oxygen process steel making? The explanation for their slowness lies not in stupidity but rather in two other factors. First, there has been only a limited amount of money available in the steel industry for real capital investment (as opposed to government required environmental and safety investments). Second, given the limited profitability of the steel industry, steel companies have attempted to diversify into more profitable areas.[22] The fact that the last new open-hearth furnace in the United States was built before 1960[23] belies Thurow's claim that American steel manufacturers have wasted money in building obsolete facilities.

Contrary to Thurow's claim that the steel industry (and other industries similarly situated) continue to indulge in bad management because of their ability to generate sufficient internal earnings to keep comfortably afloat, the steel industry in America *has* been undergoing a process of self-liquidation—disinvestment in Thurow's terms. For example, in the two-year period 1979-1980, U.S. Steel earned a nominal $75.5 million in profits.[24] However, once the nominal figures are corrected to take into account a realistic figure for depreciation (e.g., looking at the replacement cost of the depreciating equipment), U.S. Steel incurred a real loss of

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20. *Id.* at 210.
21. *Id.* at 77.
22. In this context, United States Steel Corporation's purchase of Marathon Oil through the heavy use of borrowed capital and internal capital raised not through operating profits but through the sale of a significant portion of the company's coal reserves and other operations may be the capitalist equivalent of the Long March.
23. L. HOGAN, 4 ECONOMIC HISTORY OF THE IRON & STEEL INDUSTRY IN THE UNITED STATES 1519-26 (1971).
24. United States Steel Corporation, ANNUAL CORPORATE REPORT 34 (1980).

$942.2 million,[25] a fact which may explain in part why U.S. Steel has not built more basic oxygen process shops.

What has caused the self-liquidation of the steel industry? Essentially, government intervention in the form of price controls, environmental controls and support for the United Steelworkers of America (USW). First, since the time of Kennedy's famous confrontation with the steel industry (with the use of FBI agents to root steel industry officials out of their beds to question them concerning price increases) through the Carter administration's ineffectual efforts at wage and price controls, politicians—with the exception of President Ford—have made the steel industry pay the price of the government's inflationary policies by limiting steel prices but not steel costs. The result of such a policy—as Thurow recognizes in his analysis of the failure of liberal rent control in New York City—was to accelerate liquidation of an investment which cannot generate a reasonable rate of return.[26] Second, the environmental movement of the 1960's and 1970's resulted in the enactment of legislation which, in effect, imposed an almost confiscatory tax on steel manufacturers[27] to benefit certain members of the middle class whose wants for more basic goods have been satisfied.[28] Finally, government subsidies of strikes have enabled the USW to obtain from steel manufacturers wages far in excess of the manufacturers' ability to pay.[29] Because price controls and government protection of steel imports (which come from countries whose steel industries are subsidized by their governments)[30] have precluded the steel manufacturers from passing on the total amount of their labor and environmental costs to their customers, they have been forced to absorb part of the cost themselves through the process of liquidation.

Although Thurow's analysis of some of the economic problems of this country suffers from simplemindedness, he does overcome some liberal shibboleths and accepts the necessity for the abolition

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25. *Id.*

26. L. THUROW, *supra* note 3, at 142.

27. Capital expenditures for pollution controls by steel manufacturers amounted to approximately 4.5 billion dollars during the period 1966-1980. AISI, STEEL AT THE CROSSROADS: ONE YEAR LATER 33 (1981).

28. L. THUROW, *supra* note 3, at 103-11.

29. Carney, *The Forgotten Man in the Welfare Roll: A Study of Political Subsidies for Starters*, 1973 WASH. U.L.Q. 469.

30. AISI, *supra* note 27, at 24-27.

of the antitrust laws (except for prohibitions on direct conspiracies to set prices or divide up markets or predatory pricing)[31] and for the repeal of the corporate income tax.[32] Nevertheless, his basic prescriptions, whether they be political or economic, for creating a more efficient economic system—more efficient in the Benthamite or Paretian sense that it will produce greater happiness and goods for an increased number of people—are as radical as apple pie. His proposals for income tax reform, additional subsidies for the unemployed, greater welfare benefits, and expanded government job programs involve, for the most part, ideas whose time has come and gone.

Of the four proposals which he makes for economic reform, Thurow is probably on firmest ground in suggesting a reform of the income tax system to insure that individuals with the same real income should incur the same tax burden. The current income tax system is riddled with exclusions for various types of income and deductions for certain types of expenditures. Many of the exclusions and deductions make little or no economic sense and all result in discrimination among individuals with the same given income. There is no justification for the exclusion of almost all unemployment compensation, social security benefits or welfare from gross taxable income. Inclusion of such forms of income will have no impact on the truly poor but will increase taxes paid by middle class individuals such as coal miners whose annual income—ignoring welfare benefits and food stamps which they receive during a strike—may exceed $25,000.[33] Similarly, there is no real justification, other than administrative, for the exclusion of the value of employer-provided medical insurance. The discrimination which results from this deduction, however, could be rectified by providing a deduction for all medical insurance premiums paid and all medical expenses not reimbursed by insurance. Although the deduction for medical expenses (liberalized as proposed above) may be justified as equalizing taxation on real income and the deduction for charitable giving may be justifiable on public policy grounds, there is no justification for an interest deduction which is,

31. L. THUROW, *supra* note 3, at 146-50.

32. *Id.* at 91-101.

33. The lowest non-trainee wage rate in an American coal mine is now $10.698 per hour, and will rise during the term of the agreement to $13.098 per hour, or $104.78 per day. UMW, NATIONAL BITUMINOUS COAL WAGE AGREEMENT OF 1981 180.

in essence, a subsidization of those consumers who elect to go into debt to obtain instant satisfaction of their wants by those consumers who do not so indulge themselves. Thus, there are many measures which may be taken to make our income tax system fairer and more efficient.

Insofar as Thurow urges reform of the income tax system to reduce inequality of income, however, his program is more questionable. First, Thurow presents no real argument that the current amount of inequality in income distribution—or even a greater amount of inequality—has any detrimental effect. The reason for his silence on this point is that inequality in income distribution has never been shown to have any detrimental effect (whereas it is generally conceded that extreme equality in income distribution will have a detrimental effect on production).[34] Inequality is a political rather than an economic problem. Even politically, Thurow readily recognizes that the present system provides a distribution of income which satisfies the minimum needs of all but a very few Americans.[35] He contends, however, that "needs," or really "wants," are subject to the revolution of rising expectations, and claims that most Americans see the minimal income needed by a family as being about half of the average family income.[36] He does not indicate what political harm would result if this standard of "wants" is not satisfied at the expense of the public except to point out that in the complex civilization of today "[i]t would simply be too easy for those with nothing to lose and everything at stake to disrupt the rest of our society and economy."[37] However, an individual whose minimum needs are being satisfied is, by definition, not an individual with nothing to lose. Certainly, experience suggests that political terrorists—presumably well-fed—represent a greater disruptive threat to society than starving welfare recipients. Revolutionary leaders come from the bourgeoisie, not from the proletariat.

Second, Thurow admits that as a result of the Great Society's income transfer payment programs, the extent of economic inequality has narrowed considerably in the last twenty years.[38] He

34. R. POSNER, ECONOMIC ANALYSIS OF LAW 212-21 (1972).
35. L. THUROW, *supra* note 3, at 197-98.
36. *Id.* at 198.
37. *Id.* at 155.
38. *Id.* at 159-61.

fears, however, that inequality will increase because as spouses of families in the wealthier two quintiles of the population go to work, the income of these families will increase and the earnings gap between the upper and lower quintiles will widen. There are two basic fallacies with his concern on this point. First, as Posner points out, the "real" income of all families must include the "income" produced by a nonworking spouse who operates the household. From the standpoint of this analysis, the *real* income of such a family does not increase when the spouse takes a "paying job" and thus the real gap in income between the upper and the lower quintiles does not widen by reason of such a development.[39] Second, the increase in *net* income as a result of the development would not be as great as Thurow believes because of all the additional expenses which are incurred when both adults in a household hold outside positions.

Thurow's second reform proposal—the establishment of special subsidies for those affected by the process of disinvestment—is also flawed by his ideological fixation with the policies of the New Deal:

> Transitional aid for retraining, relocating and getting through a period of unemployment should, if anything, be overly generous . . . . What needs to be avoided is the institutional, safety-net approach where firms are protected from failure in the name of protecting individuals . . . . There is a sharp distinction to be made between protecting the failing individual and protecting the failing firm.[40]

Now, insofar as Thurow's argument on this point attacks government giveaway programs such as aid to Chrysler, it is well taken. Government subsidies for failing businesses are either unnecessary or unsuccessful since if the business is sound, it will be able to secure enough financial backing in the free market and if it is unsound, government assistance will do little more than extend the agony.

Insofar as Thurow advocates special assistance for those individuals who are affected by the disinvestment, he is on shakier grounds. First, he seems to ignore the fact that our society has already established an extensive safety net of programs designed to help the "failing" individual. It is highly questionable whether

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39. R. POSNER, *supra* note 34, at 219-21. He does not, however, point out any great economic or social benefit which has resulted from such narrowing.

40. L. THUROW, *supra* note 3, at 210-11.

there is any real need for additional assistance simply because an individual's unemployment results from disinvestment as opposed to some other cause. Second, he ignores a basic question of equity. Often there is some causal connection between the failure of the employer and the "faults of the employees." If Chrysler's UAW employees produced better quality work at a lower rate of pay, query if Chrysler would be on the verge of bankruptcy. Why should domestic servants or low-paid textile workers be taxed to finance special programs to benefit unemployed autoworkers whose loss of jobs result from the fact that their real wage rate exceeded twenty dollars per hour? Moreover, the existence of such special programs may make the UAW membership less willing to make the wage concessions required to keep the auto industry in operation; in such a case, Thurow's special assistance program will be but a further inducement to economic suicide. Third, Thurow ignores the lamentable track record of such special subsidy programs. Thus, the workers' adjustment assistance program, which provides "trade readjustment allowances" to workers harmed by import competition,[41] whose recent liberal administration draws raves from Thurow,[42] has been severely criticized by the General Accounting Office as being essentially a boondoggle.[43]

Perhaps even more questionable is Thurow's third proposal calling for a higher income floor for all families—"regardless of the cause of their failure"—equal to one-half of the standard of living of the average American.[44] If one were to identify the quintessential failure of liberalism in this country, one could do worse than to focus on this sentimentalism which is fair neither to those who give nor to those who receive. To require an able-bodied person to support another is to urge a policy without moral justification or practical sense. It is perhaps fortunate for the history of this country that Captain John Smith rather than Lester Thurow was in charge of the Jamestown colonists.

Leaving aside the eligibility issue, however, it would seem that

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41. Trade Act of 1974, subch. II, Part 2, Adjustment Assistance for Workers, 19 U.S.C. §§ 2271-2322. Thurow erroneously terms the Act's provisions for "trade readjustment allowances," *e.g.*, 19 U.S.C. § 2291, as the "Trade Adjustment Assistance Act." L. THUROW, *supra* note 3, at 209.

42. L. THUROW, *supra* note 3, at 209.

43. COMP. GEN., RESTRICTING TRADE BENEFITS TO IMPORT-AFFECTED WORKERS WHO CANNOT FIND A JOB CAN SAVE MILLIONS, in GAO REP., HRO-80-11 (Sept. 5, 1980).

44. L. THUROW, *supra* note 3, at 211.

Thurow's advocacy of a higher level of benefits even for those who cannot readily find work makes little sense, since Thurow readily admits that the current transfer system satisfies the minimum needs of nearly all the poor for food, shelter, clothing and medical care. Moreover, Thurow, like most liberals, ignores the disincentive effects of any income transfer system. A General Accounting Office study has shown that the larger the amount of unemployment compensation benefit paid, the longer the period for which an individual remains unemployed.[45] The higher the level of welfare benefits, the less likely individuals are to seek employment which may not pay significantly more than is already being given to them.

Similarly, the higher the taxes which are imposed on the "working" class, the less likely those individuals are to work. Thurow contends that the current income tax system has had no disincentive in this area because all studies show that the efforts of the workers have not been adversely affected by the progressive taxes on their wages.[46] However, the disincentive resulting from the progressive income tax impacts not on the quality of work but on the quantity. If I as a lawyer can make fifty dollars an hour and a plumber can make thirty dollars an hour and if I am in a fifty percent tax bracket, it will be more advantageous for me to fix the plumbing around my house (assuming that I can do it in about the same amount of time as a plumber) even though from a basic economic sense, society would be richer if I stuck to lawyering and left plumbing to the plumbers.

Thurow's final prescription for reform is an expanded government training and employment program which will erase the earnings gap between white males on the one hand and blacks and females on the other by providing training and employment—often at high wages—to all unemployed regardless of race or sex. The failure of the present Comprehensive Employment and Training Act (CETA)[47] program seems to have had little impact on Thurow. Indeed, Thurow's belief in the efficiency of a bigger and better CETA seems quite similar to the belief of the Johnson Administration that the Vietnam War could be won if more and more bombs

45. COMP. GEN., REPORT ON INEQUITIES AND WORK DISINCENTIVES IN CURRENT SYSTEM OF UNEMPLOYMENT ASSISTANCE, in GAO REP., EMD-81-10 (Aug. 7, 1981).

46. L. THUROW, *supra* note 3, at 168.

47. Comprehensive Employment and Training Act of 1973 (CETA), 29 U.S.C. § 801 (Supp. V 1975).

were dropped.

Moreover, there are two basic problems with any government employment program of the nature envisaged by Thurow. First, inevitably there is considerable waste in that the performance of the managers of such a program is measured not by their making a profit or by their accomplishment of useful public works but rather by their spending the appropriated money and hiring the employees whom they are supposed to hire. Second, and equally inevitable, there is considerable corruption in a program of this type, particularly to the extent that it pays high wages, because it is giving away a right to earn more in the way of wages than the market is willing to pay. The premium rate which is given away by this program is a commodity which can and will be traded for illicit purposes.

Perhaps, however, the evils of government employment programs could be tolerated if the problem which they are designed to solve was real. However, there is considerable reason to question the need for further government intervention to bridge the gap between the earnings of white males and the earnings of blacks and females. In the case of blacks, the earnings gap has resulted from employment discrimination and educational discrimination. Both practices have been made illegal. The impact of these changes can be seen in the fact that employed black males were making sixty-nine percent of the weekly earnings of white males in 1967 but seventy-eight percent of such earnings in 1978.[48] One would expect this gap to continue to narrow as the continuing effects of past discrimination are eliminated and as the educational gap between the two races narrows. Significantly, current studies indicate that although black men's earnings lag behind those of white men, their monetary returns for each year of education are as high as those for white men.[49] This development leads one to question the necessity for expanded government employment programs to the extent that such programs are designed to reduce the earnings gap. It should be recognized, however, that these programs are designed in part to reduce the gap between white employment rates and black employment rates (or, conversely, the gap between white unem-

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48. Hedger & Mellon, *Weekly and Hourly Earnings of U.S. Workers, 1967-78*, MONTHLY LAB. REV., Aug. 1979, at 31.

49. Taylor, *Education, On-the-Job Training, and the Black-White Earnings Gap*, MONTHLY LAB. REV., Apr. 1981, at 28.

ployment rates and black unemployment rates). This gap does not seem to be narrowing and, indeed, with respect to teenage employment and unemployment, seems to be increasing. Much of that gap would seem attributable to the decline in employment opportunities in the inner-city areas. Creation of special "enterprise zones" and abolition of the minimum wage seem to hold out better prospects of alleviating this problem than expanded government training programs.

The earnings gap between males and females has also been the result, to some extent, of employment discrimination and educational discrimination. Again, both practices have been made illegal. As Thurow points out, the earnings gap between males and females does not seem to have narrowed appreciably despite passage of civil rights legislation.[50] However, recent studies have suggested some narrowing in that women are now making about sixty-three percent as much as men.[51] There is considerable reason to believe that the earnings gap represents the results of forces beyond the reach of Thurow's prescription. First, much of the current earnings gap reflects the fact that female workers have much less education and work experience than male workers and are paid commensurately less.[52] Given, however, the sociological revolution which has been occurring in America, it is likely that this factor will have less impact in the future. Second, the earnings gap reflects the fact that female workers tend to have discontinuous careers to a greater extent than male workers because their working pattern is often interrupted by periods of child rearing.[53] Third, the earnings gap reflects the fact that women tend to work in jobs which are easier from a physical sense than jobs in which many males work and which, accordingly, are lower paid.[54]

50. L. THUROW, *supra* note 3, at 19.

51. Rytona, *Occupational Segregation and Earnings Differences by Sex,* MONTHLY LAB. REV., Jan. 1981, at 49.

52. Finn, *Statement before Senate Committee on Labor and Human Resources, reprinted in* DAILY LAB. REP. (BNA), Apr. 21, 1981, at D-10.

53. Sekcezski, *Job Tenure Declines as Work Force Changes,* MONTHLY LAB. REV., Dec. 1979, at 48.

54. Finn, *supra* note 52. Advocates of comparable worth assume that there is some objective manner in which 'male' jobs can be measured against 'female' jobs. Unfortunately, any job evaluation system involves an element of subjectivity. While it is not difficult to conclude that a secretary's job is easier from a physical standpoint than a coke oven worker's or that a secretary needs more formal training than does a coke oven worker, it is difficult to determine what weight should be given to each of these factors in measuring the

Although Thurow's prescriptions seem ineffective to this reviewer, at least, there are elements of his work that suggest some of the political and economic principles which must guide the coalition the current administraton seems to have succeeded—at least temporarily—in forming. On the political side, there are two principles which should guide any reform administration but most particularly a conservative reform administration.

First, all reforms must be implemented gradually so that the expectations—legitimate or otherwise—of the affected portions of the populace are not abruptly disturbed. Certainly, it is impossible—and stupid—to use the Social Security system to subsidize the education of college students. However, it would seem prudent—and probably fair—to eliminate the Social Security dependent's allowance on a gradual basis (perhaps twenty-five percent per year) so that those individuals who have relied on such monies are not cut off immediately. Similarly, it is impossible to subsidize early retirement at age sixty-two or even age sixty-five given the increasing longevity of the populace. However, increasing the early and normal retirement ages one month for every year for the next thirty-six years would accomplish the necessary savings without unduly harming those who have planned their retirement on the assumption that the current age levels would continue. Indeed, Thurow, in his description of the system used to decontrol natural gas and oil prices, illustrates why artificial barriers to free market forces should not be removed suddenly.[55]

Second, reforms in particular—and the reform program in general—must not only be fair but also have the appearance of fairness. Thus, the corporate income tax and the estate and inheritance tax must remain not because they make any real sense economically,[56] but because they make considerable sense politically. Similarly, government subsidies for poor and rich alike must be cut simultaneously. Defense costs must be scrutinized as carefully as welfare costs. It is not only Caesar's wife who must be above suspicion.

On the economic side, there are three principles which must be observed if the economic problems of the country are to be

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worth of each job. *Id.* at D-11.

55. L. THUROW, *supra* note 3, at 26-35.

56. Thurow presents a trenchant analysis of the case against both taxes. *Id.* at 97-101, 172.

solved. The first principle is the encouragement of investment through the reform of the tax system depreciation schedules. America lags behind all its competitors in the Free World with respect to the percentage of the gross national product devoted for investment. There can be no new high paying jobs in the steel industry unless society permits those who operate the steel industry to invest the capital needed to modernize and expand the industry. The second principle is the reduction in government spending in general and for government spending for income transfer payments in particular. Excessive government spending, particularly in the form of transfer payments, has been one of the major causes of inflation and has also diverted to present consumption resources which should have been used for capital formation. The third principle is the application of a cost-benefit analysis to all current and proposed government regulation, which in essence is a hidden form of government spending.

In making these suggestions, this reviewer is not suggesting that observance of these principles will be a panacea for either the political or the economic ills of American society. Indeed, there is an obvious conflict between the need to cut government spending on the one hand and the need to build up our defense establishment on the other just as there is an obvious conflict between the need to balance the budget and the need to reduce taxation on business. But some progress in meeting all these goals must be made if this nation is to survive in a world in which American economic and military power is on the decline.