

REFLECTIONS ON SUPPLY-SIDE ECONOMICS

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Introduction

According to Dr. Samuel Johnson, "Promise, large promise, is the soul of an advertisement." By this standard, the Reagan economic program had a lot of soul last year. Embracing the supply-side economics of Laffer, Wanniski, Kemp, and Stockman, President Reagan accepted the idea that lower tax rates alone could reinvigorate the economy, stop inflation, and even balance the budget by 1984. Under the guise of "supply-side economics," the American public had the impression that drastic budget cuts were not really necessary, nor would a recession occur. An omelette would arrive without breaking any eggs.

It all sounded too good to be true, and now an impatient public knows that it was too good to be true. Hard-headed academic economists never totally embraced the Reagan supply-side doctrine. Similarly, financial markets were sympathetic to supply-side arguments, but remained unpersuaded throughout an ardent courtship by the Reagan administration. Now it seems clear why: Inflation doesn't end without a recession as a serious side-effect; monetary policy is a powerful determinant of short-run fluctuations in economic activity; and federal spending, despite Reagan's valiant efforts, remains out of control. Markets were right and the intellectuals and politicians were wrong once again.

Understandably, many people, including some supply-siders, are disappointed and confused about the current contraction in economic activity. In the political arena, where influence is intensely psychological and time horizons very short, instant solutions and immedi-

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ately perceived success are all important. A truism of our age is that ideas have consequences and the danger for supply-siders, who gained the ear of politicians with such meteoric success, is the growing idea that supply-side economics is a failure. Supply-siders are learning that their influence can dissipate as quickly as it arose, especially if the dominant opinion emerges that supply-side policies do not expand total output, but merely confer tax benefits on the rich.

In their attempts to avert discrediting their doctrines, supply-siders have responded in a variety of ways. The most common is to assert that supply-side economics has not yet been tried, either because the cuts in tax rates just began taking effect, or because the cuts are not radical enough. As Richard B. McKenzie wrote, "Supply-side economics has not worked and will not work for one simple reason: it has not been and is not likely to be tried."¹ McKenzie, along with many others, argues that the bracket creep caused by inflation plus scheduled increases in social security taxes will not reduce marginal tax rates for most Americans over the next four years. Although these forecasts are necessarily speculative, the most careful estimates I have seen (displayed in Table 1) show that marginal rates for most taxpayers would be about equal to those of 1977, hardly a return to a low-tax era.

Another version of the view that supply-side economics has not been tried, an opinion with some factual foundation, is that the Reagan administration has not been able to reduce federal spending or taxation as a share of GNP, nor is there any strong evidence that it will succeed in reducing government's share by 1984. Federal spending as a share of GNP rose from 21.1 percent in 1979 to 22.9 percent in 1980 and to 23.5 percent in 1981, while federal tax revenues rose from 20.5 percent, to 20.6 percent, and to 21.4 percent of GNP during the same period.² Thus far the Reagan administration has ushered in a revolution in rhetoric but not in policies. The tax cut was similar to the five previous rate cuts during the 1960s and 1970s that almost neutralized the bracket creep inherent in the combination of a progressive tax structure and inflation. Defenders of "Reaganomics" claim that the indexing of the income tax to inflation, scheduled to begin in 1985, is the truly revolutionary part of the tax cut.³ However, there is no guarantee that Congress will follow through with index-

¹Richard B. McKenzie, "An Introduction to the Personal Tax 'Cuts,'" *Wall Street Journal*, January 8, 1982, p. 22.

²Calculated from *Economic Report of the President, January 1982*, pp. 233, 320. The figures for 1981 are preliminary.

³"An Interview with Phil Gramm," *Pathfinder* 4 (Center for Free Enterprise, Texas A&M University, February 1982): 2.

TABLE 1
Marginal Income Tax Rates
(percent)

	<i>Income in Thousands of 1981 Dollars</i>					
	\$7.5	\$15	\$30	\$60	\$120	\$240
<i>Wage or Salary Income Only:</i>						
1977	16	23	25	42	50*	50*
1978	16	23	28	42	50*	50*
1979	6	24	24	43	50*	50*
1980	19	24	28	49	50*	50*
1981	33	24	32	48	50*	50*
1982†	31	26	36	49	50	50
1983†	30	25	33	44	50	50
1984†	30	24	35	42	49	50
<i>Property Income** Only:</i>						
1977	0	17	25	42	55	66
1978	0	17	28	42	58	68
1979	0	18	24	43	59	68
1980	0	18	28	49	59	68
1981	14	18	32	48	64	70
1982†	12	19	33	49	50	50
1983†	11	17	28	44	50	50
1984†	11	16	26	42	49	50

SOURCE: "Where Are the Tax Cuts?," *Research Reports* 49, American Institute for Economic Research, Great Barrington, Mass., May 24, 1982.

Note: All data are calculated on the basis of a family of four with no itemized deductions and only one family member with earnings subject to Social Security tax.

*50 percent maximum tax on "earned" income. †Projected.

**Dividends, rents, royalties, short-term capital gains, and nominal interest.

ing, nor is indexing revolutionary compared with overindexation, which would shrink government's real revenues as the price level rose, nor compared with a flat rate tax. Another response to the supply-siders' floundering has been to insist on a return to a gold standard in which government guarantees convertibility between its currency and gold at a fixed price.⁴ The political popularity of this proposal quickly peaked and eroded. A further response was Jack Kemp's call, echoed in parts of the Reagan administration, for Paul Volcker's dismissal as head of the Federal Reserve System and a

⁴Lewis E. Lehman, "The Case for the Gold Standard," *Wall Street Journal*, July 30, 1981, p. 24; Jude Wanniski, "Supply-side Case for a Gold Standard," *Business Week*, December 7, 1981, p. 23F; Arthur B. Laffer and Charles W. Kadlec, "The Point of Linking the Dollar to Gold," *Wall Street Journal*, October 13, 1981, p. 32.

speeding up of the printing presses to bring down interest rates and stimulate recovery.⁵

The most recent supply-side proposal, riding a boomlet of popularity, is a flat rate income tax.⁶ Properly termed a degressive tax, it would apply a flat rate to all income above some exemption level. The virtue of this scheme, long advocated by Milton Friedman, is that it could raise revenue in amounts comparable to the present system yet with a rate below 15 percent. This would drastically reduce marginal tax rates, simplify the tax system, eliminate the tax shelter game, and improve resource allocation.

Perhaps the major change among supply-siders, however, has been their willingness to identify with the heritage of classical, free-market economics. Although in most respects this marks an advance in terms of substance, it does nothing to diminish the suspicion that supply-siders seek political power through flashy packaging rather than constant adherence to a set of tested principles.

None of this bodes particularly ill for the champions of a free society. Economics alone is not sufficient to understand human action. A proper appreciation of history, politics, philosophy, law, and biology is also required. Nor is economics a sufficient vehicle for public policy formulation, since the case for free markets must ultimately rest on its moral credentials, not its vaunted efficiency and material success. Use of the proper means is the real end that we seek in human affairs, not a particular pattern of results.

The case for markets rests on reliance on voluntary cooperation rather than state coercion. Despite the importance of these ethical arguments, positive economic analysis of alternative policies can be useful. For some people, the morality of alternative government policies plays little or no role. They are interested in policies that work, i.e., policies which promote *the ends that they seek*. Friedman is probably right in his judgement that:

Currently in the Western world, and especially in the United States, differences about economic policy among disinterested citizens derive predominantly from different predictions about the economic consequences of taking action—differences that in principle can be eliminated by the progress of positive economics—rather

⁵See, for example, interview with Jack Kemp, "Why Supply-Side Economics Hasn't Worked," *U.S. News & World Report*, April 5, 1982, p. 39; Paul Craig Roberts, "The Stockman Recession: A Reaganite's Account," *Fortune*, February 22, 1982, p. 56f.

⁶David Hale, "Rescuing Reaganomics," *Policy Review*, Spring 1982, pp. 57-69; Peter Brimelow, "Support Growing for a Flat-Rate Income Tax Levy," *Barron's*, August 3, 1981; Robert E. Hall and Alvin Rabushka, "A Proposal to Simplify Our Tax System," *Wall Street Journal*, December 10, 1981, p. 30.

than from fundamental differences in basic values, differences about which men can ultimately only fight.⁷

Strengths of Supply-Side Economics

Supply-side economics is like the proverbial elephant described by various blind witnesses as "a tree, a rope, and sundry objects." Supply-side economics means different things to different people: For insiders like Paul Craig Roberts, Arthur Laffer, Bruce Bartlett, Jude Wanniski, George Gilder, Jack Kemp, and Norman Ture, as well as for outsiders. Congressman Phil Gramm offers a broad definition: "Supply-side economics is a new term for common business sense"; as do David G. Raboy, director of research for the Institute for Research on the Economics of Taxation, and Bruce R. Bartlett, author of *Reaganomics: Supply Side Economics in Action*: "Supply-side economics is the application of price-theory to aggregate entities in the economy—nothing more, nothing less. . . . [It is] not a new theory but one that incorporates teachings of the classical economists from Adam Smith to Alfred Marshall to Milton Friedman. . . ."⁸ A better definition of supply side economics is that of David Meiselman: "Supply-side economics asserts that fiscal policy, especially its tax component, affects incentives, economic efficiency, and economic growth. . . . Change the rules or change the rewards and you change the results."⁹

The strengths of supply-side theory are quite transparent if we examine the nature of news commentary up through the mid-1970s. Recognition of the incentive effects of governmental policies has finally taken hold in the political debate in the United States and, to some extent, in Europe. Supply-siders, not academic economists, must be credited with restoring some correct microeconomic thinking to political debate.

Supply-siders have put the Keynesians and their emphasis on aggregate demand on the defensive. The revolution is so complete

⁷Milton Friedman, "The Methodology of Positive Economics," in *Readings in Microeconomics*, William Breit and Harold M. Hochman, eds. (Hinsdale, Ill.: Dryden Press, 1971), p. 25.

⁸"Interview with Phil Gramm"; David G. Raboy, "Supply-Side Economics—Myths and Realities," *Economic Report* (Washington, D.C.: Institute for Research on the Economics of Taxation, 1981); "Supply Side Rift Goes On," *Houston Chronicle*, May 27, 1982, Sec. 3, p. 3. Also see Tom Bethell, "The Death of Keynes: Supply-Side Economics," *National Review*, December 31, 1980, pp. 1560–66; and *Essays in Supply-Side Economics*, David G. Raboy, ed. (Washington, D.C.: Institute for Research on the Economics of Taxation, 1982).

⁹David Meiselman, "Fiscal Policy and Interest Rates: The Great Deficit Swindle of 1982," *Tax Review* (Washington, D.C.: Tax Foundation, Inc., May 1982).

that the big econometric models like Wharton, Brookings, Chase, and so on, have been overhauled to incorporate supply-side effects. Despite the fact that scholarly research and real world experiments have demonstrated again and again that Keynesian analysis is flawed, it remains on prominent display in political life and in much of the business and financial community. Supply-siders have permanently unsettled these opinions in a way that academic economists have been unable to achieve.

Weaknesses of Supply-Side Economics

The most glaring weakness of supply-side economics is the tendency of "supply-siders" to overstate their position. This tendency is so strong that, with the friends that it has, supply-side economics has no need of enemies. Shooting themselves in the foot is almost a habit. Perhaps this is because supply-siders consist mainly of journalists like Jude Wanniski and George Gilder, and politicians like Jack Kemp, David Stockman, and Ronald Reagan. They are second-hand traders in ideas and sometimes lack the judgement and discernment that comes with maturity in basic economics. On some issues, they are incorrect, partly because they so fervently wish to sell capitalism. George Gilder, for example, said in an interview: "Capitalism is *not* based on greed; it is based on generosity and giving."¹⁰ Gordon Tullock sees this argument as a serious defect in Gilder's book, *Wealth and Poverty*. While it is true that voluntary exchange is mutually beneficial, this does not mean that capitalists are selfless givers. As Tullock says, "The average successful capitalist emphatically does not live in poverty. This is fairly good evidence that his basic motive is not altruism but greed."¹¹

Supply-siders clearly recognize that high marginal tax rates discourage a greater supply of goods. Yet, as Henry Simons remarked in 1945:

Much has been made of our taxes as factors inhibiting enterprise; but their effects on this score are, I think, grossly exaggerated and, in any case, concern mainly structural faults in our levies which are, in the main, quite as inimical to equitable progression as they are prejudicial against enterprise. . . . But the bias against new investment inherent in labor organization is important and cannot be removed by changes in matters of detail.¹²

¹⁰Cited by Gordon Tullock, "Review of *Wealth and Poverty* and *The Zero Sum-Society*," *Policy Review*, Summer 1981, p. 143.

¹¹*Ibid.*, p. 144.

¹²Henry Simons, "Some Reflections on Syndicalism," *Journal of Labor Research*, Reprint Series No. 2 (Spring 1980): 18; orig. in *Journal of Political Economy* 52 (1944).

Supply-siders have been notably weak in recognizing the other disharmonies that keep production and employment below their potential. The main culprits are a wide range of direct price interventions by government to keep prices above market-clearing levels, coercive pricing by labor unions, combined with the money monopoly, which allows politicians to put off the reforms to allow market pricing to work and allows them to spend more than the citizens are willing to tolerate through ordinary taxation. The explanation may not lie in an intellectual deficiency on the part of supply-siders, but their interest in short-term political influence, which forces them to use their political capital on a relatively narrow set of issues. For instance, supply-siders were virtually silent on the Reagan administration's restrictions on the import of Japanese automobiles. Supply siders, however, do acknowledge that obstacles to economic progress can take other forms. For example, Wanniski wrote: "... there is no difference between financial taxes and regulatory burdens; each requires precise amounts of labor."¹³

The central weakness of supply-side economics is that it is an incomplete version of economics. This incompleteness is poorly understood by many supply-side spokesmen, and it has proven damaging in the political arena because supply-siders are unsure about how to explain the current recession. They were so convinced about the soundness of supply-side measures, based on theoretical arguments and evidence from the Mellon cuts in the 1920s, the Kennedy cuts in the early 1960s, Puerto Rico, Hong Kong, California's Proposition 13, and so on, that they were flabbergasted when "Reaganomics" did not immediately expand output and investment.¹⁴ If nothing else, this demonstrates that economics is a difficult subject. A good economist is rare, much rarer than the number of journalists who can understand the basic arguments of supply-siders.

The point that many supply-siders fail to understand is that their propositions are basically *long-run* fiscal remedies for ailments in Western economies, rather than quick fixes. If we are interested in the short-run economic behavior, we must consider the importance of money, and this is where the supply-siders have stumbled. In fact, the whole supply-side movement may be a hidden way to sing the praises of Milton Friedman. Supply-side analysis is generally consistent with microeconomic theory, and most advocates of the free market, including Friedman, agree with the thrust of supply-side

¹³Jude Wanniski, *The Way The World Works* (New York: Simon and Schuster, 1978), p. 85.

¹⁴Bruce Bartlett, "Supply Side Success Stories," *Reason*, July 1981, pp. 48-53.

policies. However, what caught supply-siders by surprise was the distinction between the real and the monetary sectors. Taxes do drive a wedge between what employers (consumers) pay for labor services and what workers net, at the margin, thereby distorting labor-leisure choices. But the short-run behavior of money spending is influenced significantly by the amount of money in the hands of the public. Fluctuations in the rate of growth in money spending have important short-run effects on output and employment, due to the costliness of information, lags in expectations, man-made barriers to full employment, and incorrectly anticipated rates of inflation. The lack of a coherent monetary theory has proven nearly fatal to supply-siders, and risks discrediting sound measures that government policymakers should adopt for economic and moral reasons.

The Causes of Stagnation

High and erratic money growth, combined with high taxation, government-imposed and union-imposed wage rates, plus a rapidly growing welfare state, explains our economic ills. Supply-siders would agree, but their lack of a monetary theory is the source of their confusion over the current situation in the U.S. economy. A central ingredient is confusion over high interest rates, which allegedly has forestalled the supply-side recovery. But the analysis of contractions is not that simple.

The cause of the current contraction in the U.S. economy is the standard one: a slowdown in the rate of growth of the money supply. The money supply (M1) grew by eight percent in 1979, but by 1981 the rate had been knocked down to five percent. Monetary restraint knocked the stuffings out of inflation, just as monetarists always claimed it could. The restraint was, to be sure, mixed with a little bit of luck in the form of real changes, including a peak in oil prices, due in no small part to President Reagan's deregulation of oil prices and the consequent narrowing between U.S. demand for oil and domestic production.

The Federal Reserve authorities, however, deserve very little applause for their performance. Virtually all of the reduction in the growth of M1 occurred between April and October of 1981, when the money supply did not grow at all. This delivered a sharp jolt to the economy, eliminating the possibility of a smoother transition to less inflationary conditions. Money growth has resumed its erratic path since last October, and at much higher rates, about 10 percent, annualized. Where the U.S. goes next depends on how an unpredictable Fed responds to the immense pressures to administer injec-

tions of new money; a resumption of double-digit inflation is increasingly probable. Uncertainty will be endemic until the Fed's monopoly control over the money supply is broken. Unlimited discretion by the political appointees at the Federal Reserve, subject to political pressures, has not worked and never will work. Only a nonpolitical or free-market monetary system, as proposed by Hayek, really has a chance of working well over the long run.¹⁵ No one can write a quantity or price-level rule that can truly bind government officials in a constitutional sense.

A free banking system would allow the general public to choose among suppliers in an openly competitive process. Firms like American Express and Bank of America, guided solely by pursuit of gain, would limit the quantity issued or be driven from business. The dominant monies to emerge would doubtless offer the public the least risk of fluctuation in value and probably offer convertibility into gold at a fixed price, or into a fixed-weight basket of commodities, or a price index refund scheme. However, no one can accurately predict the exact money scheme that would emerge from the ingenuity of the market.

Applying the monetary brakes caused the recession, but Americans should rejoice because recessions have benefits, as well as costs: Recessions force the necessary price and output adjustments that will eventually restore long-run economic growth. Some businesses cannot survive the transition to less inflation. Some investments cannot pay for themselves in a less inflationary environment. This is part of the cost of restoring noninflationary conditions. Free enterprise is a profit and loss system and the losses are every bit as important to efficiency and allocation as profits. Perhaps more important.

People have paid a tremendous amount of attention to the behavior of interest rates during this recession, but wage rates—the prices of labor services—are equally crucial. Deceleration of inflation tends to raise unemployment because wage rates are “sticky” downward: They do not react quickly to an unexpected decrease in money spending. Price-cost margins get squeezed and many businesses find that their loss minimizing outputs are at lower levels of production. Labor prices tend to keep rising at their old, unsustainable pace for as long as a year after a reduction in the growth of money spending, thereby pricing a sizable number of workers out of jobs. Prices of products,

¹⁵For an elaboration of Hayek's proposal, see F.A. Hayek, *Denationalization of Money—The Argument Refined*, 2d ed., Hobart Paper 70 (London: The Institute of Economic Affairs, 1978).

on the other hand, react more quickly to disinflation without long delays (to the amazement of most observers).

Whenever hourly wage costs in the economy as a whole rise more rapidly than aggregate spending, employment declines and each time the growth in hourly labor costs exceeds growth in aggregate spending, unemployment rises.¹⁶ These relationships appear empirically reliable and they are confirmed by the stagnation of the U.S. steel and automobile industries, where wage rates have increased far more rapidly than the average manufacturing wage rate. In England the process of adjusting wage rates to less inflationary conditions is beginning to bear fruit. Wage settlements are in the range of six percent and a "new realism" is permeating workplaces. Deceleration in the prices of labor services and in the prices of goods, if sustained, promises lower inflation and revival of employment, productivity, and hence prosperity.¹⁷

Few economic observers, including most supply-siders, have a firm grip on the issue of interest rates. Milton Friedman and Yale Brozen are outstanding exceptions.¹⁸ There is both a long-run and a short-run component to the high real rates of interest that currently prevail in U.S. credit markets. The long-run component is the expectation of continued inflation and the short-run component is the erratic behavior of money growth, which appears even more variable since October 1979, when the Fed announced its determination to target monetary aggregates rather than short-term interest rates (in particular, the "federal funds rate").

Expectations are recursive or adaptive to some extent, that is, formed on the basis of past experience. In the United States, the historic experience of lenders and borrowers was that relatively brief periods of inflation were followed by deflationary restorations of the value of the dollar. Following the Second World War, Korean War, and Vietnamese War, Americans still did not completely believe that the 30 years of rising prices would continue, as evidenced by the plummeting of AAA corporate bond yields during each recession, including the 1974-75 downturn. Now, however, people have learned

¹⁶See, for instance, the excellent statistical tables assembled by Yale Brozen, "Money and Interest Rates," mimeo, presented at the University of Hartford, West Hartford, Conn., June 10, 1982.

¹⁷There is evidence that the advance in nominal wages and salaries is beginning to soften. See Ralph E. Winter, "Pay Raises Start to Shrink, Signaling Possible Long-Term Fall in Inflation," *Wall Street Journal*, June 30, 1982, p. 25.

¹⁸Brozen; Milton Friedman, "The Yo-Yo Economy," *Newsweek*, February 15, 1982, p. 72; Milton Friedman, "Interest Rates and the Budget," *Newsweek*, June 28, 1982, p. 70.

that the monetary authorities cannot be trusted to preserve the value of the dollar, and U.S. financial markets behave very much like those in Buenos Aires, Santiago, and Rio de Janeiro. Real interest rates will remain above their historic average (of three percent) until people are convinced that the Federal Reserve is determined to pursue a noninflationary growth of money. The Fed's recent performance and the exploding federal budget deficit, however, offer little encouragement for monetary control and lower long-run interest rates.

Erratic money growth appears to explain the recent fluctuations in interest rates, as well as their high average real level. Today, when the Federal Reserve steps up the rate of growth of money beyond anticipated rates, people expect a step up in the rate of inflation. Interest rates rise immediately on both short- and long-term obligations as borrowers seek additional debt and lenders add an inflationary premium. Similarly, the evidence appears consistent with the hypothesis that *expected* declines in money growth rates cause short-term interest rates to fall. This hypothesis, of course, conflicts with the Keynesian liquidity preference theory that predicts an inverse relationship between monetary growth and short-term interest rates.

The Power of Money

In the short run, the evidence is very powerful that monetary aggregates are the major ingredient causing business fluctuations. In the short run, fiscal policy, within the usual range of fluctuation, has little or no dependable impact on the business cycle. People need time to adjust to real fiscal changes. On the other hand, in the long run, monetary policy is less important than fiscal policy, though not trivial, in its effect on real variables like the level of national production, employment, work effort, and capital formation. In the long run, fiscal policy influences the size and composition of output by affecting efficiency, incentives, growth, and income distribution via returns from marginal effort.

Confusing the short-run and long-run effects of monetary and fiscal policies is the major source of analytical error by the supply-siders, as well as Keynesian demand-siders. Because the effects of monetary policy swamp the effects of tax and expenditure actions in the short run, many supply-siders expected and promised too much in the short run and they are now paying a political price. The proponents of the supply-side approach are on the same shaky ground as Keynesians regarding the large and certain short-run impact of changes in tax rates, including the five percent reduction that occurred October 1, 1981, and the 10 percent reduction on July 1, 1982.¹⁹

¹⁹Meiselman.

The confusion extends further because most of the talk in Washington and on Wall Street about deficits and interest rates is almost entirely wrong. There is no reliable relationship between deficits and interest rates.²⁰ Moreover, the simple numbers on federal revenues and deficits conceal as much as they reveal; nor can we have confidence in the crystal ball forecasts about the budget, tax, or deficit estimates. The tragedy is that the Reagan program, which is based on correct, long-run theory, will be abandoned and discredited before it is even implemented.

Conclusion

Although supply-side economics has had a noticeable and desirable effect on economic policy in the United States, its staying power is dubious. As a guide or vehicle to redirecting government policy back toward a free society, it is inadequate.

Supply-side economics suffers from two serious defects. First, it is an incomplete version of economics; it offers a limited set of long-run propositions about fiscal policy, while ignoring the effects of monetary policy on economic activity. Indeed, the supply-siders' inattention to monetary theory has damaged their political influence, since their predictions have been falsified by events.²¹ Second, supply-side economics evades the ethical question about the proper role of government in a free society. Supply-siders emphasize the *increased* tax revenues they expect to flow from lowered tax rates, but fail to mention that taxes are coercive and should be reduced on ethical grounds.

Years ago, Americans were hostile toward state intervention. Individual responsibility and limited government were unquestioned tenets of life. America was a land of great opportunity and economic freedom. The function of government was to provide a stable institutional framework so that individuals could pursue their diverse interests without socially destructive actions. We must restore the belief in the value of freedom, and expose the debased nature of coercive government redistribution programs. We must explain more

²⁰See evidence in Brozen.

²¹The intemperate statements of Arthur B. Laffer illustrate the point: "I don't know of any major inflation that has been stopped by a recession, by tight money and by high interest rates. . . . It's nonsense to think that the current policy of slowing growth in the quantity of money will slow inflation. . . . The Fed has no control over the quantity of money at all." Interview with Arthur B. Laffer, *U.S. News & World Report*, January 18, 1982, "What Went Wrong with 'Supply-Side' Economics," pp. 36-38. On the evidence, see Leland B. Yeager and associates, *Experiences with Stopping Inflation* (Washington, D.C.: American Enterprise Institute, 1981).

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clearly how private property and free markets nurture and reinforce just action.²² Finally, economists must realize that despite the usefulness of their analytical tools, a broader approach to public policy is required if we are to preserve the principles of individual liberty. Our approach must encompass ethical and legal theory as well as economics.

²²See Arthur Shenfield, "Capitalism Under the Test of Ethics," in *Homage to Mises*, John K. Andrews Jr., ed. (Hillsdale, Mich.: Hillsdale College Press, 1981), pp. 55–65.