

Unleashing Free Enterprise

Wealth and Poverty, by George Gilder,
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"HOW SWEET IT IS." So trumpeted a headline in *Human Events*, the conservative Washington weekly, immediately following the Reagan victory. The euphoria spread into the stock market where the Dow Jones Industrial Average raced up beyond the elusive 1,000 level. Not long afterwards, however, then Budget Director-designate David Stockman and Congressman Jack Kemp circulated a paper describing the harsh economic realities that the incoming Reagan Administration faced. The Stockman-Kemp paper spoke darkly of "an economic Dunkirk" unless drastic emergency fiscal steps were taken. Joseph Granville, a widely-read investment counselor, further pricked the euphoric bubble with a famous "sell everything" telephone and telegram message to his subscribers, causing the stock market to drop forty points in two days.

The Reagan Administration has now of course taken office and put into play a number of campaign pledges. Oil prices have been decontrolled; federal hiring has been frozen; the Council on Wage and Price Stability has been abolished; the last-minute "midnight" regulations of the Carter Administration have been suspend-

ed for sixty days in order to permit a critical review; substantial tax and spending cuts have been proposed to Congress.

But the proof of conservatism's pudding is yet to be eaten. Will inflation ease? Will unemployment turn down? Will productivity recover? Will the economy get moving again? Fortunately, at this juncture, comes a seminal book, a bold and incisive work on how to increase wealth, curtail poverty, regain economic growth, and repeal inflation. The book is not so much conservative as it is libertarian, even radical. It is aptly entitled *Wealth and Poverty*, by George Gilder, author of *Sexual Suicide* and *Visible Man*, and a contributor to *Harper's* and to *The Wall Street Journal*.

Importantly, Mr. Gilder is also a spokesman for the increasingly influential new school of thought called "supply-side economics." He argues that public policy has dwelt, most mistakenly and for far too long, on "aggregate demand," thereby inducing runaway inflation and undermining the true source of wealth: production, that is, supply. Supply creates demand, he says, crediting Jean-Baptiste Say. He writes:

The sum of money paid to the factors of production, chiefly in rents, wages, salaries, and profits, for the making and marketing of an automobile, for example, is precisely enough to purchase it. Therefore, across an entire system, purchasing power and producing power can always balance: there will always be enough wealth in an economy to buy its products. There cannot be a glut of goods caused by inadequate total demand. Producers, collectively, in the course of production, create demand for their goods. This idea is obviously simplistic in many ways, but it bears a number of key economic truths and implications never refuted by Keynes or anyone else. These truths are the foundation of contemporary supply-side theory.

Gilder builds on Say's Law, on the market-clearing price mechanism of sup-

ply and demand, and on the incentive and disincentive implications of the Laffer Curve—or the trade-offs between high taxes and low taxes on economic growth and government revenues. He argues that high taxes have long blighted the incentives to produce, save, and invest in our country and thereby have damaged productivity and set back living standards. The United States, he emphasizes, has one of the most steeply graduated tax systems in the world with especially onerous taxes on capital gains and on capital itself, the very lifeblood of capitalism.

In similar fashion, Gilder argues against the Welfare State and the so-called "just" redistribution of wealth aimed at benefiting the poor and especially the blacks. To be sure, notes Gilder, blacks have long been at the bottom. But those economists and political commentators who bemoan this situation and seek to ameliorate it with transfer payments seem to ignore the dynamism within the American system. Gilder notes, for example, that thirty years after their internment in American concentration camps during World War II, Japanese-Americans scored higher per capita earnings than any other ethnic group in America except the Jews. The three and one-half million Jewish immigrants who arrived on our shores around the turn of the century had but an average of \$9.00 a person in their pockets. Six decades later the average Jewish family income was almost twice the national average. Black West Indian immigrants have also done well in America.

In short, Gilder shows that welfare payments serve to keep the poor in poverty; that the poor, including the children of the poor, become victims of a devastating psychic welfare dependency; that, to the extent "antipoverty" programs supposedly make the welfare mother's situation better, they tend to make the father's situation worse. Gilder observes:

These unlisted welfare men form a group almost completely distinct from the "able-bodied men" actually listed on the rolls—aging winos, over-the-hill

street males, wearied ex-convicts, all the halt-and-lame founderers of the world—who receive money under the general assistance category and are harassed mercilessly during every crackdown.

Hence, Gilder takes issue with economist Martin Anderson, now the Domestic Affairs Counselor to President Reagan, who has declared a victory in the War on Poverty. Gilder disagrees strongly and is for letting the free enterprise system convert welfare rolls into payrolls. He argues that capitalism is not greed but giving. The capitalist has to give before he can get; moreover, he has to invest money today for a return he may or may not get tomorrow.

Accordingly, Gilder is for unleashing free enterprise from the fetters of Keynesianism, regulationism, welfarism, and from the fiscal drag of excessive government. He is for cutting away at the progressivity in the individual income tax. He is for easing up on business taxes and

especially capital gains taxes. Supply, he holds, will take care of demand, including that of the “poor” who will share in a much bigger economic pie.

My only misgiving about this brilliant book is Gilder’s betting so heavily on economic growth via tax cuts and his implied downplaying of the urgency for government spending rate reductions. Such downplaying has also been seen in the Reagan Administration in its initial stages. But total government spending is now absorbing 36 percent of GNP, with federal transfer payments alone amounting to some \$400 billion annually, apart from some \$70 billion interest on the national debt. Thus it is clear that vast *potential* capital formation, the raw material of economic growth, is being destroyed. And even Gilder would have to admit that capitalism without capital would be like *Hamlet* without the Prince.

Reviewed by WILLIAM H. PETERSON