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Priorities in Economic Policy in the Next Administration
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The main task for the next administration is to improve the performance of the U.S. and the world economy. This can best be achieved if uncertainty is reduced and efficiency increased. The next administration can contribute by adopting three policies which, taken together, would provide a post-post-war framework for more stable, non-inflationary growth of the world's market economies. The three steps are:

1. Aim for stability of domestic prices and increased stability of exchange rates. Domestic price stability can be achieved using an adaptive, medium-term monetary policy, or policy rule, that holds the rate of money growth equal to the difference between a three year moving average rate of increase of real output and a similar average of the growth of monetary velocity.

Stability of exchange rates would be increased if other major countries—Germany, Japan and perhaps Britain—adopt comparable medium-term policies for price stability. Germany and Japan followed medium-term monetary policies of this type in recent years, until they were induced to support the dollar.

2. Accelerate steps to lower tariff and non-tariff barriers, to remove quotas and restrictions imposed during the recent past, and improve enforcement mechanisms. Trade increases efficiency and raises standards of living by encouraging countries to shift resources toward more efficient, higher value uses. Debtor countries, including the U.S., will have much less difficulty servicing past debts by exporting if world trade is expanding, so this policy helps to make the servicing of international debt more manageable.

Rules for trade adopted in the early postwar period under the General Agreement on Tariffs and Trade (GATT) have been undercut by protectionist actions, exclusions and by the absence of enforcement procedures. The challenge to the next administration is to expand the coverage and to improve the procedures for enforcing the new and old rules.
3. Encourage a shift of resources from consumption to investment by shifting taxes from capital and saving toward consumption and by reducing the growth of government spending. We should not penalize growth and productivity by taxing capital and saving. We should slow the growth of transfers and government consumption by adopting a spending limitation amendment.

The problem that should not be given top priority is the so-called twin deficits. The efficiency with which we use resources and division of resources between consumption and investment and between government and the private sector are far more important than the budget deficit. If we hold the growth of government spending below the growth of GNP the budget deficit will fall without tax rate increases or spending cuts. Further, the policies often recommended to bring down the twin deficits--tax increases and protection or retaliation--are costly. However, we should try to get foreign governments to share more of the costs of common defense efforts and to join with us in lowering barriers to trade.