# The Daily Tar Heel

*90th year of editorial freedom*

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## It's not easy

It's not easy being a congressman. No sirree. You've got to run for election and do all that kind of political stuff that can really run you down. The worst part, however, is when you win. Then, *gasp*, you've got to live in or near Washington, D.C.

It's bad in Washington. Real bad. How bad is it? It's so bad living in the nation's capital that in December Congress approved a huge retroactive tax exemption to cover the costs of living there. The exemption was only for congressmen and not for other government workers who apparently don't feel the pinch of living in Washington quite as much.

The exemption allows all legislators to deduct — without documentation — at least $19,000 a year to cover Washington's high costs. If congressmen are not afraid to tell us what they spend their money on, they can itemize and document their living expenses and can possibly avoid taxation altogether. Those deductions can include everything from rent, the hiring of a cook and home maintenance to food, cleaning and transportation. Even laundry could be deducted, although if congressmen did this kind of detailed itemizing their spending would all come out in the wash and none of them want that.

Sen. Jesse Helms has a much different idea. Helms has considered sponsoring legislation that would cut by 5 percent the salaries of congressmen, the president and top federal officials. Helms said if the public is being expected to sacrifice to stimulate the economy, public officials should too.

While Helms' idea makes sense, it would be better to reduce the oversized tax exemptions that congressmen are now receiving. The tax code is already dubious enough without adding deductions that don't necessarily bear any relationship to the actual additional costs of living in Washington. The deductions are worth most to those who spend the most money and have the highest income. These exemptions also are a shifty way for Congress to increase its pay without looking like it is.

Congressmen voted for a modest increase for top civilian and military officials last year, including themselves. That increase was needed to keep many talented workers from bolting to the private sector. No one should complain about paying a fair price to keep talent in government. But $19,000-a-year tax deductions that are not given to other citizens are not fair. Those special tax breaks should be repealed.

As for living in Washington, a recent study ranked the nation's capital as the second best place to live in the United States. Boy, it sure is tough being a congressman.

## Sink or swim

The Cape Hatteras Lighthouse may be strong enough to pull political archenemies to the same side, but when pitted against the ocean, the building is in trouble.

Just recently, Gov. Jim Hunt and Sen. Jesse Helms cut their backbiting and snickering to become instant-best-friends-for-life. The reason for their new friendship: to save the lighthouse. Extraordinary erosion has caused the 111-year-old structure to be in danger of becoming the nation's first underwater lighthouse.

Because of this threat, a committee called "Save the Cape Hatteras Lighthouse" was formed last summer, pulling at the average North Carolinian's heart strings and purse strings to save the historical landmark. With the assistance of government and park service officials, the committee has raised more than $125,000 of the $1 million goal. Hunt and Helms, asked to co-chair the effort, have appeared on statewide television together to encourage people to contribute money.

So far, the committee has worked on three plans to save the lighthouse, the first of which is to build a large wall around it. Another plan, more expensive, involves building steel breaks or jetties off the coast to break the force of the waves. The last plan, least expensive, least popular, but most feasible, would be to move the lighthouse altogether.

Brick walls and steel jetties can be considered as temporary solutions at best. No one can stop the ocean; not Hatteras residents, not the park service, and certainly not Hunt or Helms. It is encouraging to see North Carolinians willing to spend money to save an historical landmark. The only way, however, to save the lighthouse is to move it piece-by-piece inland. In this case, North Carolinians would do well to accept the inevitable and spend their money on moving the lighthouse.

## The Bottom Line

### Moon shot

Everyone remembers when their mothers told them that practical jokes and pranks would always lead to trouble. But some people just don't listen, including Eric Finkleman.

Finkleman, a 25-year-old law student at Vanderbilt University, was returning from a bus tour of a local distillery last Saturday when he pressed his bare buttocks against a window which in turn popped open, sending him to the pavement below.

He was returning to school from a tour of the Jack Daniel's distillery in nearby Lynchburg, Tenn.. The window from which he fell was intended as an emergency exit.

Finkleman's prank, commonly known as "mooning," sent him to the hospital with a head injury and a broken hand. He was listed in good condition.

"I've seen some strange things in my 23 years on the force and this was one of the strangest," said traffic officer Charlie Hay.

### Controversial publicity

Politicians are always getting involved in something. And with that involvement, they quite often secure lots of public attention. However, for three N.C. legislators, the publicity they receive may spur a little controversy in their respective districts.

You see, on page 44 of the May issue of Playboy Magazine, right before the centerfold of Playmate Kym Malin, is a picture of Rep. Daniel T. Blue Jr., D-Wake; Rep. Ruth M. Easterling, D-Mecklenburg; and Sen. Rachel G. Gray, D-Guilford. But unlike many others pictured in the magazine, the three representatives are fully clothed.

They are shown in a picture taken from a Public Broadcasting System production about the Equal Rights Amendment fight in North Carolina. Blue said he had not seen the picture. but had heard about it. "I guess if it were Playgirl, I'd be in the centerfold," he said.

Rev. W.W. Finlator, Pastor of Pullen Memorial Baptist Church in Raleigh, is also in the picture. "I was very honored to be with that group on that occasion," Finlator said. Blue was also thankful that the Reverend was with them. "If somebody gets mad about it, I can say, 'Well, the preacher's there,' " he said.

And that's the bottom line.


### By MIKE SALEMI

To view President Reagan's economic policy in an appropriate light, one must take the perspective of the long rather than the short run. This is true for two reasons: first, because the benefits of Reagan's tax and spending cuts will not be experienced for some time, and second, because our attention is now riveted to a recession for which Reagan's tax and spending policies bear little responsibility.

Let's begin with some facts. The prosperity of the nation depends upon the productivity of its work force. Since World War II, that productivity has increased at an average annual rate of about 3 percent. Put simply, the persistent increase in worker productivity means that each year the average worker has enjoyed an increase in his or her standard of living. Walter Heller, chairman of the Council of Economic Advisers under President Lyndon B. Johnson, has often pointed to economic growth as the best hope for our nation in its struggle to improve the lot of our most disadvantaged citizens. Both liberals and conservatives alike, then, should be dismayed by the fact that in recent years the productivity of our work force has ceased growing at its previous rate.

Since 1973, growth in worker productivity has occurred at a rate somewhat less than 1 percent per year. Some economists argue that this decline is due to the oil price increases of the 1970s and is beyond our control. But others suggest that today's sluggish growth is the bitter harvest of two decades of unwise economic policy, policy that paid too little attention to the growth of capital.

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Growth of capital is essential for growth in the productivity of labor and thus for overall economic growth. Capital growth implies that on average our work force has available more and higher quality tools each year than it had the year before. Capital growth is also essential for the introduction of technological breakthroughs and inventions. Without investment and growth in capital we would still be using mechanical devices to perform division and this newspaper would be set in type by hand.

For the past 20 years, our economic policy has been dedicated to the short rather than the long view. Our policy prescription for recessions has been to stimulate national spending with tax cuts, additional government spending and monetary policies designed to provide cheaper credit. But we have paid little attention to the side effects of these policies on our long-run growth.

During this period we have experienced sustained and often accelerating inflation. The inflation of the 1960s and 1970s has inhibited the growth of capital for several reasons. First, inflation has caused savers to remove their money from the financial pipeline that ultimately provides businesses with the funds they need to undertake investment. The saving rate in the United States, already low by world standards, has fallen to its present level of just over 5 percent. As a nation, we save just 5 cents of each dollar of income we earn. In contrast, the Japanese save more than 20 cents per dollar.

Second, inflation has caused persistent increases in our tax rates. Prior to this administration, Congress had rejected resolutions that would have adjusted our tax tables annually to compensate tax payers for inflation. As a result, inflation itself has raised the effective tax rates of all. These unlegislated tax increases have tended to bear most heavily on the middle class and have indirectly impaired economic growth by creating a disincentive to work and by channeling to taxes funds that might otherwise have gone to investment. And, finally, inflation has created an environment in which businesses have perceived investment itself to be risky.

The Reagan economic program offers remedies for the decline in investment that has contributed to the decline in the growth of worker productivity. By supporting a conservative monetary policy, Reagan has already demonstrated that inflation can be curtailed. Reagan's tax cuts are designed simply to offset recent inflation-created tax increases. And the Reagan spending cuts are meant, in the long run, to balance the federal budget. Robert J. Gordon, an economist from Northwestern University who is not a Reagan camp follower, has estimated that Reagan's tax and spending policies are consistent with a budget that will be balanced when the economy is operating at normal levels of employment rather than at the recession levels we are experiencing now.

In conclusion, there is wisdom in an economic policy that attempts to promote the long-run growth of our economy. And it is true that such growth requires sustained growth in capital that cannot be accomplished in an environment unsuitable for investment. One can reasonably believe that a conservative approach to monetary and fiscal policy will create an environment more conducive to growth than that typical of the past 20 years.

*Mike Salemi is an assistant professor of economics at the University of North Carolina at Chapel Hill.*

### By JIM WILDE

During the presidential campaign, candidate Ronald Reagan focused on four economic goals: 1) reduction of the rate of inflation, 2) elimination of the budget deficit, 3) revitalization of the economy through its employment and production, and 4) elimination of the scope of governmental activity. Now that the Reagan administration has been in office for about 15 months, it is appropriate to discuss the success of the policies it has selected to reach these goals.

An examination of the relevant data clearly indicates that the president is at best batting .500 with respect to these goals. Although all of the major price indicators show that the inflation rate has moved significantly below the double-digit range, it seems likely that the federal budget deficit will be in the triple digit (or really the 12 digit) range during the coming years. Relative to the size of the economy, this deficit may not be a record. However, its size is intimidating enough to send shivers down many spines.

The Reagan administration has also succeeded in shifting the tread line depicting the economic role of the government. Defense spending is up and social programming down, though the precise extent of these changes is still up for grabs during the present budgetary negotiations. The net effect of these shifts may be little change in overall federal expenditures, but the president has achieved a start on the definite change in emphasis which he proposed as a candidate. On the other hand, the state of the overall economy, as measured by almost any data on output and employment, is exceedingly bleak. The pessimism which has resulted from this depressed economy is no doubt compounded by the high hopes which accompanied the inauguration of Ronald Reagan.

Reaganomic policies are based on the premise that increasing supply is the key to realizing this set of economic goals; thus the term "supply-side" economics. The "supply-side" label itself is indicative of the difficulties we are now in. After criticizing the previous administration's Keynesian approach as manipulating demand while neglecting the supply side of the economy, the present group put its own blinders on by disregarding the demand side. The administration based its attempt to increase supply on an expectation that the business community would quickly respond to the prospect or fact of lower tax rates by deciding to buy new plants and equipment. In doing so, it failed to take into account weak demand. Since firms were experiencing considerable idleness in existing facilities during the low-demand recession, they were in no mood to be induced into expanding their facilities to increase output. The present administration is paying a confidence-rating price for its failure to understand the two-sided nature of the market.

One of the great ironies of this policy analysis is that Reagan's main economic success — the lowering of the inflation rate — is due not to the administration's supply-side policies but to the ignored demand-side forces. Businessmen are lowering prices not because of a flood of added output but because consumers have been unwilling or unable to buy. The United Auto Workers and the other unions have been forced to give back promised wage increases; not because more people had joined the work force, but because so many of the union members had been laid off. Energy prices are down not because of a great increase in supply but because of the oil glut resulting from worldwide recession.

Another cruel fact for Reaganomics concerns the interrelationships among its goals. The expected revitalization of the economy has not occurred, and one of the results has been the enormous amount of red ink in the federal budget. It is clear that the scheduled tax cuts will make no dent (or no appreciable dent) in the budget deficit. An economy pulling smartly out of recession on the strength of an increased money supply accompanied by low interest rates is the best hope of those who wish to stop the hemorrhaging red ink.

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It is precisely in the monetary segment of the economy that Reaganomics finds its greatest hurdle, however. As long as real interest rates are as high as they are now, there is little prospect for an investment boom, which is the central objective of the tax program. The inflation fears which pushed interest rates up have apparently not been sufficiently relieved in spite of the recent inflation reduction. The characteristic interaction of inflation with interest rates and taxes creates a disastrous set of disincentives to investment. Tax cuts are an imperfect solution to the problem because they scale down this interaction without offsetting its negative effects. It thus becomes all the more important for interest rates and inflation to be brought down.

Can our lowered tax rates result in beneficial economic impacts? The answer appears to be: "Yes, but don't oversell the outcome." Lower tax rates could increase labor supply. The potential for this increase, however, is limited, since the major source of new workers, the female workforce, has already been tapped and job rigidities leave little room for expansion. The other two targets of the tax cuts, saving and investment, may also be boosted as tax rates fall. However, in a type of chicken and egg situation, it appears that saving and investment will not be able to help bring down inflation until inflation itself is reduced.

And what is the botton line of the Reaganomic tax program? The tax cuts can only serve as a Moses factor capable of leading us toward an economic promised land if they first operate in a traditional Keynesian fashion by stimulating consumer demand. Once the general economic climate has improved, a boost in investment spending may yield the prosperity for which we all yearn.

*Jim Wilde is an associate professor of economics at the University of North Carolina at Chapel Hill.*

## Letters to the editor

# CGC limits publication

To the editor:

I was shocked and saddened by the Campus Governing Council's decision to cut $2,000 from the funding of the *Black Ink*. In doing so the CGC has severely limited the effectiveness of the only publication that has made any attempt to bridge the gap of cultural and social ignorance that exists on this campus.

The CGC's myopic vision is best surmized by the statement of representative Dan Bryson (District 18), who finds that it is "ridiculous to think that we want to spend that much ($8,000) to fund a newspaper for an organization." The *Black Ink* is not, nor has it ever been, a paper for just one organization. It has been the best source, and in many instances the only source, that all students on this campus have had to educate themselves about events that affect the black community and how these events affect the University as a whole.

It is unfortunate that a 15-year-old tradition like the *Black Ink* can be cut down in the span of 11 hours. But it is even more unfortunate that as a result of this cut the ability of diverse groups of students to communicate through the printed word will also be severely curtailed. And in the end, the entire University community will suffer as a result of its compounded ignorance.

Mark H. Canady
Former Chairperson,
Black Student Movement

## Letters?

*The Daily Tar Heel* welcomes letters to the editor and contributions of columns to the editorial pages. All contributions should be typed, triple spaced on a 60-space line and are subject to editing.

Column writers should include their majors, and hometowns. Each letter should include the writer's name, address and phone number. Unsigned letters will not be printed.

DOONESBURY by Garry Trudeau