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## Interview

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# Norman Ture muses about an industrial recovery under Reagan

*Dr. Norman Ture, interviewed below by EIR's Stanley Ezrol on July 6, is the Treasury Department's Undersecretary for Tax Policy. A disciple of Milton Friedman, he prides himself on being one of the most eloquent spokesmen for "supply-side" economics in the Reagan administration.*

*In his first speech as a Treasury official, at the Feb. 26-29 National Governors Conference, he proposed a policy of steering tax benefits, and thus capital, away from "older plants located in the steel, auto, and rubber" sectors, toward "newer" industrial sectors. In the interview excerpted here, he expresses a different emphasis. This may reflect the outrage engendered among industrial-belt spokesmen by his earlier remarks.*

**Q:** Could you start by giving us your view of how the tax policy supported by the administration will lead to economic recovery?

**Ture:** The economy has been suffering from a combination of bad economic policies, primarily those that preceded the current alignment, and it's going to take a considerable change in structure of public policy, not for the economy to recover in the usual cyclical sense, but to recover its sense of direction, vigor, forward thrust.

The question now is, "What's the tax program got to do with this?" Our perception is that a substantial part of the explanation for the deteriorating state of the economy is to be found in the tax system that was really biased to begin with and becomes more biased with every passing year, against savings and investment, against work, against the kinds of activity that promote advances in productivity, risk-taking, innovation, and so forth: the kinds of activity upon which economic progress rests.

The descriptors of that would be found in higher rates of increase of real output, positive and significant changes in productivity, significant gains in real wage rates, significant gains in employment. We would see much larger additions to the inventories of new products, new production processes. Probably the most difficult thing, but perhaps the most important, is what all of us

would have: we'd see a lot of zest.

**Q:** Do you see any change in the profile of American industry?

**Ture:** The administration's economic program is focused on the long run. It's not a short-run, fine-tuning program, so it's appropriate to ask what's going to happen to the complexion of industry. With that in mind, I think what we aspire to, and expect to realize, is some reversal of the deindustrialization of the U.S. economy that has been going on for the last decade or longer.

We expect to see that a larger fraction of employment will be in manufacturing and goods-producing industries, and, without specifying particular types of activity, we expect to see, by virtue of more rapid productivity advances, a redrawing back into manufacturing employment. We expect to see an increase in R&D activity and technological activity flowing therefrom, and that's the most difficult thing for anybody to predict. . . . But I think you ought to expect a lot more impetus for industrial expansion geared to new products, new industries.

**Q:** So you think this trend toward a service-oriented economy should be reversed?

**Ture:** I don't offer that as a normative judgment. I simply say that when you observe bad policy, and inflation as the prime mover in that direction, you can't applaud it. You can't even take a neutral attitude.

**Q:** It has been argued that a combination of a tight monetary policy and an across-the-board tax cut will tend to benefit those industries which have been doing well and will tend not to benefit those industries which have not been doing well.

**Ture:** Well, what you've got to look at is one of the leading industries in this country, which is not doing well: the thrift industry. The thrift industry will benefit enormously from the results of the tight-money policy. The results of a tight-money policy will be a substantial decline in the yield structure, the level of interest. They



*Dr. Norman Ture*

will benefit substantially less, obviously, from the tax reductions and revisions that we have proposed, insofar as they tend to alter the flow of savings away from strictly financial into real-capital formation. Concomitant with this should be a revival of the housing industry which has been in considerable straits. I don't think that characterization of the outcome of the policies is accurate. All industries will benefit from the reduction of interest rates, which is the natural outcome of a tight-money policy. And the economy as a whole will benefit from the tax relief. I'm sure not everybody will benefit equally. It's very difficult to pick out those who will benefit more than others. I think that small businesses are going to be among the principal beneficiaries of the tax cut.

We have had it drummed into our heads for years past, and it's the most mischievous sort of thing that one can envision that the benefits from this, that, or the other kind of fiscal program are to be found in the changes in liabilities, or the changes in advantages that come floating into your pocket. Well, I think that's as wrong as you can be. The ultimate benefits from any kind of tax revision are to be found as a result of changes in the level or composition of economic activity that result therefrom.

The fact that a loss company will not have a reduction in its taxes, doesn't mean that that company will not benefit enormously from the tax program if, as a result of that tax program, that loss company finds that it has a bigger market, has a more productive market, than it had before.

It's very difficult to use the tax system to provide relief for people who are not paying taxes. Very difficult. If you're not on the tax rolls it's very difficult to use the tax system to help you.

**Q:** Some critics of a tax cut at this time claim that it

might counter some of the efforts that have been made in other areas to limit the growth of the monetary supply.

**Ture:** Well, the administration can't do anything about the money supply. It's a matter over which the Federal Reserve has jurisdiction and control. All the administration can do is consult with, urge upon, offer aid and succor to the Fed in pursuit of slow steady growth in the monetary aggregates.

You can have a slow steady growth in the monetary aggregates with the tax cuts. You can have a slow, steady growth in the monetary aggregates without the tax cuts. There simply is not any necessary connection.

**Q:** What do you see as the time frame in which the economic policies of the Reagan administration will bring about a regime of low interest rates, below 10 percent, let's say?

**Ture:** I think interest rates will decline and decline substantially and swiftly when participants in our financial markets are convinced that inflation rates will decline. Participants in our financial markets will be convinced of that when, in turn, they are convinced that the monetary authorities will hold firmly to a policy of slow and steady growth in the size of the monetary aggregates.

**Q:** You're saying that there's nothing the administration can directly do?

**Ture:** I think that an independent monetary authority will continue the policy it seems to have been pursuing over the last several weeks, because if they do that, sooner or later, we've got inflation under control. But I think that one has to be more or less continually concerned about locating more and more authority in the federal government, particularly in the executive branch. And I think it's clear that one of the major thrusts of this administration is to reduce that authority, not to augment it.

**Q:** There are two terms which have been used a lot lately to describe economic theories: monetarism and supply-side. Both of them seem to have merged in this administration.

**Ture:** Well, they're not at odds. They're both derived from the same neoclassical set of propositions. Supply-side says that instead of examining fiscal changes or any other kinds of public policy changes, for that matter, in terms of what it does to people's disposable income, the appropriate way to look at it is in terms of what it does to the relative cost that's involved, because that's the way public policy can affect the nation. A tax cut, for example, doesn't in and of itself increase anybody's income. It is only by virtue of the fact that the tax may make it more or less attractive for people to work and save, and do things that expand the supplies and productivity of production. That's perfectly consistent with monetarism.