

TAX POLICY

Can the productivity collapse be reversed

by David Goldman and Alice Roth

EIR, two issues ago, released a groundbreaking analysis of energy, inflation, and productivity, demonstrating that the Carter administration's "energy conservation" strategy was not only incompatible with the successful functioning of the American economy, but represented the chief cause of structural inflation. In the subsequent issue, *EIR* Contributing Editor Lyndon H. LaRouche, Jr. presented an economic model capable of analyzing the effects of such policies that appear perverse and random to all other econometric models.

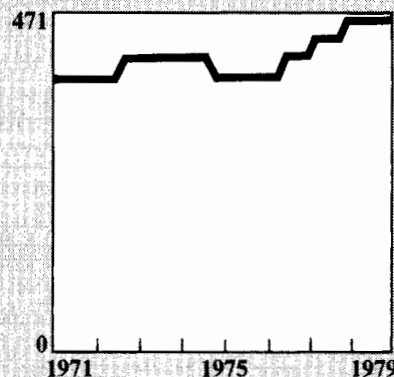
This week, we continue in this survey the application of this economic model to answer the question: how can tax policy enhance the performance of the American economy? Three proposals prominent in the current

electoral and congressional debate are evaluated: the Joint Economic Committee Annual Report, which employed a "supply-side" model developed by Otto Eckstein of Data Resources, Inc.; a proposal forwarded by LaRouche, now a candidate for the Democratic presidential nomination; and the Reagan tax policy associated with University of Southern California economist Dr. Arthur Laffer.

The core of our analysis is a computer-generated analysis employing the "LaRouche-Riemann Model" which defines the objectives of tax policy from the standpoint of the growth of the tangible product of the American economy. The controversy over the employment of tax reductions to stimulate economic growth has cen-

1. Real economic performance, 1971-1979

Constant capital (C)
(in billions of 1972 dollars)



tered on the admitted unreliability of the analytical and computer models hitherto employed. Apart from other considerations, the failure of such models to make the distinction between productive and nonproductive investment that has prevailed in all economics through David Ricardo renders their analysis useless. The results presented below show how sterile the debate is between “demand-side” tax cuts to stimulate consumption and “supply-side” tax cuts to stimulate investment.

The Joint Economic Committee report, chosen as a congressional consensus view in favor of so-called supply side economics, presents the results of a study by DRI’s Eckstein with this caveat:

“The inability of the forecasters to accurately predict employment, unemployment, and inflation in the face of reasonably accurate real GNP forecasts suggests that there are problems with either the structures of the models themselves or their assumptions respecting the behavioral responses of the consumers and businesses.” That is, although DRI, Chase Econometrics, Wharton Economic Forecasting Associates and others fairly accurately predicted change in Gross National Product (GNP), their GNP forecasts were useless in predicting other measures of economic behavior. As *EIR* has emphasized repeatedly, GNP, as an agglomeration of all sales of goods and services in the economy, is an entirely misleading way of accounting for national income.

The JEC’s self-critique continues, “The failure of the model builders to foresee the huge jump in OPEC prices in June, and the heightening of world tensions and their economic consequences at year end, should make us doubly cautious in accepting current economic forecasts for, if anything, political uncertainty is much greater now than it has been in the past.”

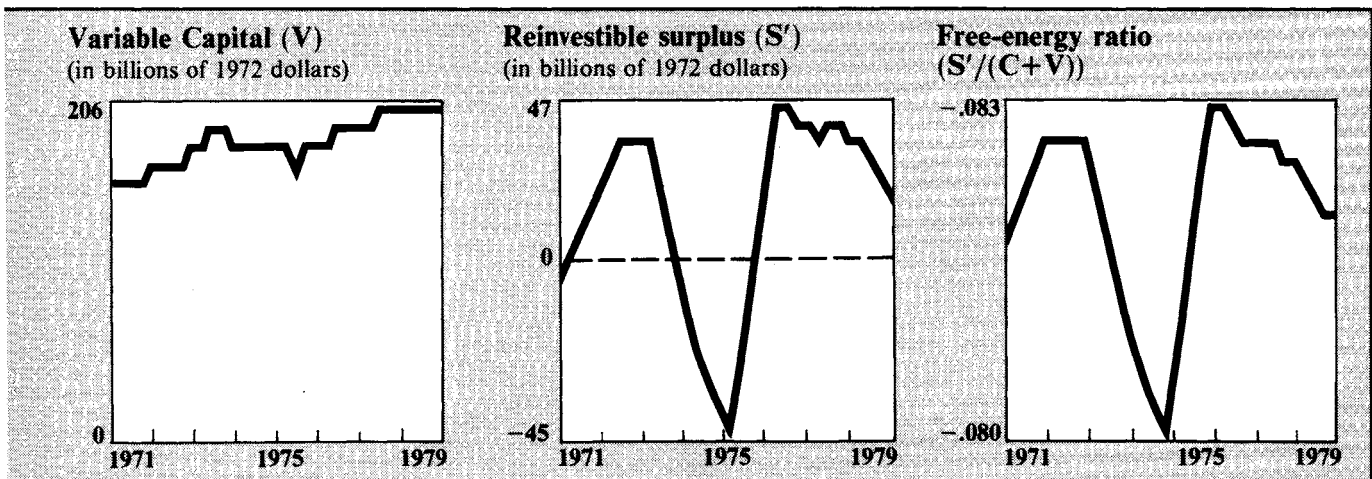
In its first generation, the LaRouche-Riemann model employed by *EIR* predicted and incorporated into forecasts both the changes in the oil price and the world security situation, and accurately charted the course of

the economy in forecasts made in May 1979 and October 1979. As the JEC notes, Chase, Wharton and DRI were unacceptably far from the mark. Governor Reagan’s tax-policy advisor Dr. Laffer has not offered similar forecasts during 1979. However, his reputation as a forecaster became something of a public scandal during the Nixon administration, when Laffer offered an inaccurately high forecast of GNP growth while a consulting economist to the Office of Management and Budget.

The LaRouche-Riemann model is a four-dimensional analytical view of the economy, examining both gross tangible output of the economy and the “free energy” ratio of that tangible output, and both gross energy consumption and the flux density of that energy consumption. This “hydrothermodynamic” method of analysis comprises the first scientific evaluation of the economy as a physical system, including a competent method of national accounting to replace the discredited GNP approach.

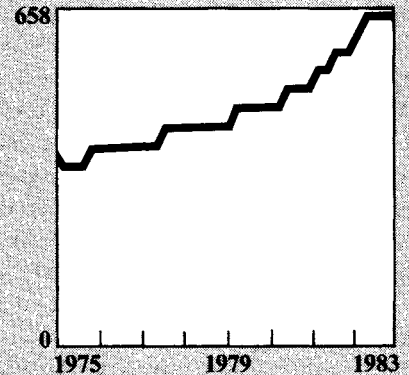
The current analysis employs a simplified version of the LaRouche-Riemann model, treating the two output parameters noted above. The results are displayed in three groups of computer-generated graphs:

- (1) A display of revised national income statistics in constant 1972 dollars through Dec. 31, 1979, showing the replacement cost of labor (Variable Capital, or V); the replacement costs of capital (Constant Capital, or C); gross tangible surplus above replacement costs, or S; and the portion of surplus available for reinvestment, or S’.
- (2) A projection through 1983 showing the effects of a tax program designed to increase the proportion of the tangible surplus (S) available for reinvestment (S’), or an increase in the net free energy of the system.
- (3) A projection through 1983 under the same conditions, but assuming a more modest growth rate of productivity through the same period.



**2. Economic performance, 1975-1983,
projecting a 5 percent average annual
growth in productivity**

Constant capital (C)
(in billions of 1972 dollars)



The graphic display of the 1970-1979 measures of the tangible economy make the present economic problem immediately apparent. They show that the post-1975 period of economic recovery, shown in the rise in gross tangible surplus, was in no sense a recovery in terms of surplus realized in new investments. Virtually all the surplus was consumed in additional overhead. The Riemann model's data base counts as overhead the consumption of non-goods-producing employees, defense, environmental, and other forms of nonproductive investment, and depreciation of fixed capital (measured by capital consumption allowances).

As noted in the earlier studies in this series, S' , or investible surplus, passes below the zero level at the end of 1979, and subsequently continues below the zero level, judging from the available data for January and February. This defines a condition of general instability characterized either by hyperinflation or by unmanageable bankruptcy of large sections of the financial structure. Negative free energy means that the economy, to continue, must cannibalize its existing capital and labor base. The classic model for this predicament is the 1936-1939 German economy.

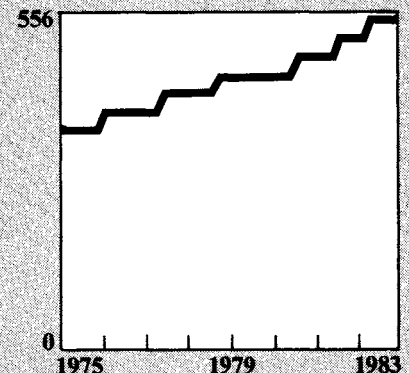
Therefore, in strictly physical terms, the economy, if it is to grow, must apply a greater portion of its surplus above payments to labor and productive capital maintenance to reinvestment, and less to overhead. It must do so at higher productivity levels. No other criteria for fiscal policy is admissible from the facts presented in the first four graphic displays in this series.

The second and third group of graphs, showing projections through year 1983, indicate what a tax policy must aim toward. Two scenarios are shown, including low and moderate assumptions concerning labor productivity. Both assume a substantial transfer from overhead types of employment to goods-producing employment. The scenarios assume reallocation of slightly less than \$30 billion in tangible product from overhead categories (in constant 1972 dollars) to variable and constant capital improvement.

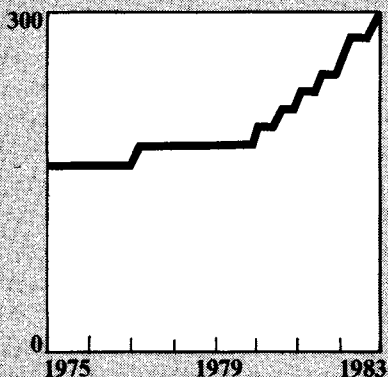
We estimated that the post-1973 growth in wholesale and retail trade, finance, insurance, real estate, and services (other than health, education, social and repair services) could be cut back and reassigned to goods-producing categories of employment, returning the

**3. Economic performance, 1975-1983,
projecting a 2 percent average annual
growth in productivity**

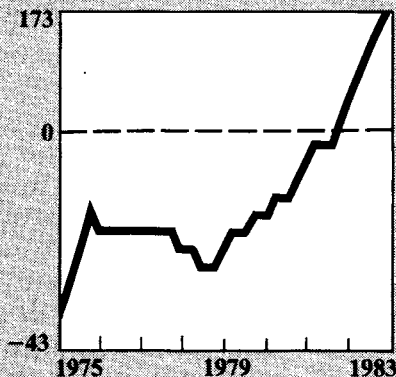
Constant capital (C)
(in billions of 1972 dollars)



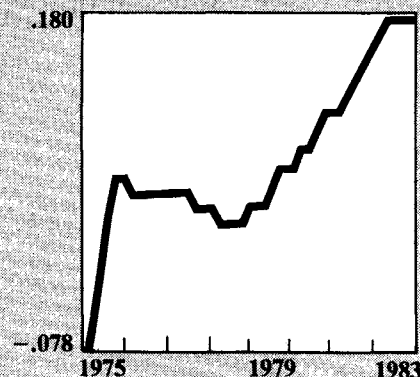
Variable capital (V)
(in billions of 1972 dollars)



Reinvestible surplus (S')
(in billions of 1972 dollars)



Free-energy ratio (S'/(C+V))



economy to the labor composition of the beginning of the decade. Under these sets of assumptions, the volume of reinvestible surplus would be substantially increased.

The productivity assumptions employed are extremely conservative. The LaRouche-Riemann model employs entirely different measures of labor productivity than the Bureau of Labor Statistics publishes. Instead of output per manhour, the model uses the ratio S/V , or the amount of surplus generated by a certain input of labor. The benefits of this measure of "global productivity" are immediately evident.

The BLS approach would count into productivity, for example, a new method of digging holes in the ground and filling them up again that resulted in more holes dug and filled per manhour.

EIR's measure of productivity changes much more rapidly than the conventional one. For example, in 1975-1976, a 25 percent rise in this productivity measure took place merely due to rehiring of laid-off workers and restarting of production. The more optimistic of the two scenarios published here does not return the economy to 1976 productivity levels until 1983.

The result of these projections is shown in the following table:

1983, Percent growth over 1979

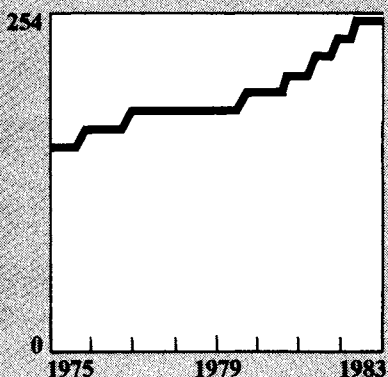
	Optimistic*	Conservative**
S	48.1	23.1
C	31.2	18.0
V	36.9	23.3

* 15 percent rise in productivity over four years;
** 8 percent rise in productivity over four years.

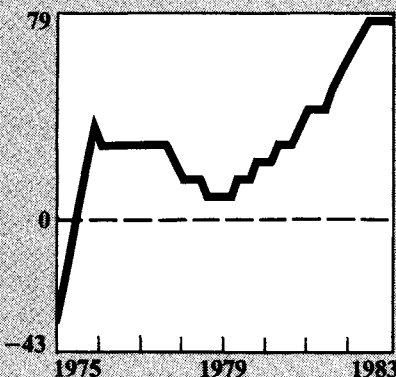
To summarize, a change in the investment allocation of tangible output as of year-end 1979 is capable of producing growth rates of 7 percent in terms of real, tangible output by 1983.

The question remains: what sort of fiscal policies would tend to promote this shift in investment policy?

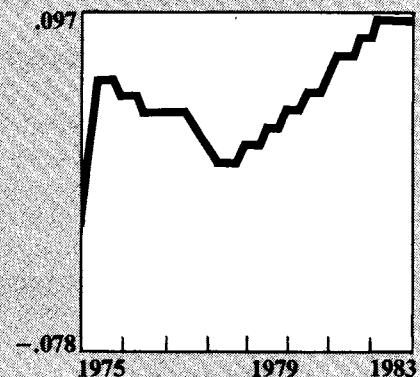
Variable capital (V)
(in billions of 1972 dollars)



Reinvestible surplus (S')
(in billions of 1972 dollars)



Free-energy ratio (S'/(C+V))



The supply side of the tax-cut debate

On Feb. 28, the Joint Economic Committee of the U.S. Congress issued its Annual Report wherein it proposed a change in national tax policy based on data supplied by a "supply-side" model of economics developed by Otto Eckstein of Data Resources, Inc. Proponents of this model advocate tax cuts as a means to stimulate investment. The JEC Report explains:

"We are convinced that we need to consider a modest tax cut on the order of \$25 billion to take effect no later than the summer of 1981, even though there is considerable uncertainty surrounding the economic outlook.

"The tax cut we propose here is not the conventional kind which mostly benefits consumers. On the contrary, at least half of the tax reduction should be targeted to enhance productivity through savings and investment with the remainder going to help relieve taxpayers of the pressure of increased taxes and higher energy costs.

"It is important to recognize why a conventional tax cut is not in order. We do not need another boom in consumer spending. Savings and investment must command a larger percentage of our GNP or we will fail to reverse our dismal productivity performance with the result that we will make little headway in our efforts to slow inflation and raise real incomes. Moreover, it is important that whatever tax relief is given to the business community, it be given on the basis of expanding plant and equipment expenditures. We leave it to the tax-writing committees to work out the precise details of the tax cut proposed here."

The model employed by econometrician Otto Eckstein on behalf of the JEC "assumes that we raise the investment tax credit by 2.7 percentage points beginning in 1980; finally, it assumes that we hold monetary and fiscal policies neutral so that the demand rate of inflation is zero on average over the decade of the 1980s.

"By comparison with the outcomes that would emerge in the absence of these tax policy changes," the Eckstein study concludes, "real business fixed investment would be up 5.7 percent by 1981 and 15.5 percent by 1990, raising the capital stock by 3.5 percent by 1985 and

7.2 percent by 1990. The increased stock of capital would raise potential GNP by 1.1 percent by 1985 (0.2 percent annually in the first half of the decade). The improved capital to labor ratio would add 1.2 percent to the level of productivity by 1985 (0.5 percent annually). It would raise real wages by 0.9 percent by 1985 and would help to produce a 0.7 percent increase in real consumption. It would help reduce the core inflation rate by 1.3 percent by the end of the decade."

There are two principal problems with this approach.

First, the content of the GNP increases are not stated in the Eckstein study. However, they are stated explicitly by the JEC in accompanying recommendations. Recommendation No. 26 of the report states: "An energy productivity index should be developed to measure progress toward improved national energy utilization. Separate energy productivity indices should be developed for each of the major U.S. industries, for each consuming sector, and for the economy as a whole." These indices "would facilitate establishment of national energy conservation goals."

The report hails the drop in energy consumption per GNP constant dollar, which fell by 4 percent between 1978 and 1979, noting "our real GNP has risen almost 20 percent since 1975, while energy consumption has grown by only 11 percent." It concludes, "Further increases in energy efficiency can occur in ways that do not jeopardize economic growth."

This is devastatingly wrong, as our earlier study, "Energy and Inflation," showed exhaustively. Diversion of investment resources to "energy efficiency" is the principal reason for the drop of the free-energy index (S') to below the zero margin at end-1979. The implied policy mix of the JEC package is tax incentives for investment in an environment of extreme pressure to conserve energy in industrial processes.

Flaws in the policy

In the prevailing economic environment, additional leeway for investment would tend—due to current administration energy policy—to move into what is strictly an overhead cost to the economy. Factoring out investment in various forms of energy investment, including replacement of auto assembly lines to make fuel-efficient cars, purchases of more fuel-efficient aircraft, coal conversion by utilities, and so forth, little is left of total business capital formation by military-related investments and pollution abatement equipment—as *EIR's* previous study documented.

Under this policy environment, the JEC recommendations, modest as they are relative to the economy, exacerbating the most counter-productive trends in the economy through fiscal means.

Reagan's advisors in debate on the issue

by Lyndon H. LaRouche, Jr., Contributing Editor

The *Wall Street Journal* on March 27 featured a front-page lead item, reporting the seething policy-debate among the leading economic-policy advisors of Republican front-running presidential candidate Ronald Reagan. The article, by-lined Albert R. Hunt, contrasts the expansionist economic thinking of Reaganite tax-cutter, Congressman Jack Kemp (R-N.Y.), with the pro-Milton Friedman group of Governor Reagan's advisors.

Rep. Kemp, coauthor of the tax-cutting "Kemp-Roth Bill," is associated with former *Wall Street Journal* figure Jude Wanniski, now an influential gad-fly as political consultant on economic-policy issues. Closely associated with Wanniski and Kemp is a rising, maverick

celebrity among economic advisors preferred by conservatives, Arthur Laffer, reputedly the "theoretician" behind the bill.

Earlier, Reagan's campaign rode the popularity of the Kemp-Roth bill. More recently, the new crop of Reagan advisors added officially to the staff on Feb. 26 has been pushing the philosophy of Kemp-Roth toward the background, in favor of Friedmanite packages.

The time has clearly come when all serious discussion of the economic-policy issues facing the nation must include careful analysis of the policy-issues being reviewed within the Reagan camp. If Reagan were to become President, under the control of the same sort of Friedmanite thinking controlling Carter administration practices now, the only important question facing the American voters would be how and where to emigrate.

Comparatively speaking, Kemp, Wanniski, and Laffer have been searching in the right direction. Laffer's "curve" is unscientific, but far more sensible than Friedman's arguments.

Kemp's friends are right when they argue that stimulating the private sector will increase the tax-base. They are right in insisting that the way to bring the federal budget into balance is to increase the tax base by expansion of the private sector. They are also right in arguing that the social service component of the federal budget could be reduced significantly by lowering federal income-tax bites out of the basic incomes of households.

What was said in the Wall Street Journal

Following are excerpts from the Wall Street Journal of March 27 which reported on the economic debate in Gov. Reagan's camp.

... two views reveal a basic dichotomy in the Reagan inner circle...

The neopopulists (Jack Kemp), while favoring smaller government, want Mr. Reagan to stress tax cuts and economic growth. The more traditional conservatives, while supporting tax cuts to stimulate the private sector, believe the size of government—and of government spending—is the essential issue...

The pressure to emphasize reduction in government is coming from a group of traditionalists; these include former Nixon/Ford administration officials William Simon, George Schultz, and Alan Greenspan, plus Martin Anderson, the campaign's chief domestic-issues expert, and some of Mr. Reagan's

long-time political confidants. (The noted economist Milton Friedman, while an independent force, often sides with the traditionalists.)

Essentially, these advisers feel the Californian's 15-year preaching against the evils of big government enjoys unprecedented public support these days, and they see a rare opportunity to cut back the federal establishment. Further they worry that to stress tax cuts and economic growth, rather than shrinkage of government would be both economically dubious and politically perilous...

So far Mr. Reagan has certainly embraced the tax-cutting gospel. He constantly campaigns for a three-year, 30 percent across the board cut in individual income taxes. He argues that this deep tax—ultimately around \$90 billion a year—not only would provide enough economic stimulus to increase revenue, but also would curb both inflation and unemployment, obviating a painful choice between those evils.

Mr. Reagan also favors eliminating the \$6 billion estate and gift tax, and he would end most taxes on savings interest. For corporations, he espouses more-liberal depreciation write-offs...

The Emergency

A healthy economic policy-discussion could be built around a discussion of the question whether Kemp's proposals are the right means for reaching the sound objectives this group has adopted.

The first fault of the Kemp group's measures is that they address only the smaller part of the problem of inflation—the 2-4 percent inflationary trend of the past decade and a half. Although Kemp did consider supporting the European Monetary System proposals some time past, he and his group have since turned away from all consideration of the problem of double-digit inflation. Without a new, gold-based world monetary system, built around the European Monetary System, there is no practical solution to the problem of double-digit hyperinflation.

Within the setting of U.S. cooperation with France's Giscard and Germany's Schmidt, including remonetization of the U.S. gold reserves, double-digit inflation can be stopped short—leaving us with the problem of ending the single-digit component of overall inflation. It is that latter, second part of the overall problem which situates a competent review of the Kemp group's proposals.

The Kemp group is correct in arguing that tax-cuts—not budget cuts—are the point to be emphasized. A combination of tax-incentives promoting private, job-creating investment in agriculture, manufacturing, mining, construction and transportation is a major part of the proper package. Substantial cuts in the below-\$25,000 income-level portion of household income is the remainder of the basic package required.

The problem with the Kemp package is that it does not shape the combination of increased and decreased tax-rates competently. We must raise the rates on the general progressive income-tax schedule, including taxation of ordinary capital gains—to penalize speculation and wasteful forms of investment and spending of incomes. We must, at the same time, sharply cut federal taxes on basic household incomes, while qualitatively increasing the amortization, depreciation and tax-credit stimulants to farmers, manufacturers, construction firms, mining, and transportation, and also provide credit for these tax-deductions to individual household incomes invested in or lent to capital-intensive, job-creating expansion of productive capital stocks and related forms of improvements.

Provided such a tax package is tied to the promotion of high-technology exports, in cooperation with Japan and the Europeans, the U.S. economy can be turned around rapidly. Under that combination of circumstances, bringing "hard commodity" lending back to the 4-6 percent prime rates, we can achieve rapid growth in the economy and the tax base—the Kemp objectives.

This is what the shape of the national economic-policy discussion ought to become. The *Wall Street Journal* has missed the vital points.

1. *Whereas*, both the federal government and national economy of the United States stand in imminent fiscal and monetary jeopardy, be the following emergency measures of tax reform enacted as an integral part of the several measures required to remedy this state of affairs.

2. *The purpose of this act* is to channel savings of individuals and households, as well as retained earnings of partnerships, corporations, and other business enterprises into that sort of capital-intensive investment in production of useful, tangible commodities which will increase the income tax base of the nation, raise the level of productivity in our economy, and give substance to the presently imperiled currency of our nation.

3. *This purpose* is to be served by shifting the weight of taxation from basic income of households and from earnings of employers producing tangible commodities to those portions of income otherwise employed.

4. The category of tax-accounting heretofore known as "capital gains" is herewith discontinued, except as otherwise provided within the body of this act, shall now be treated as part of ordinary income.

5. *Reforms of the Federal Income Tax Schedules*

A. Excepting incomes of households earning a gross income of less than \$20,000 in a tax year, there shall be a 50 percent increase in the taxation derived by the federal income tax from such households, partnerships and corporations, except as hereinafter specified.

B. The per capita exemption from taxation for the income of households for the current tax year shall be increased to \$2,500 per person, to \$3,750 per deductible person for the next tax year, and to \$5,000 per deductible person for the next year following that. There shall be an additional \$1,000 deduction for each dependent currently matriculating in study of the physical sciences, biology, medicine, engineering, agronomy, or teacher training at an institution of higher learning during the tax year.

C. The per capita exemption shall be doubled for each member of a household who is legally blind, disabled, or over 65 years of age. Persons suffering a partial disability shall qualify for a quarter, half, or three-quarter credit during the period of such disability.

D. There shall be a substantial increase in amortization and depreciation and depletion allowances for capital improvements in agriculture, manufacturing,

Tax Reform Act of 1980

construction, mining, forestry, and public transport of passengers and freight.

E. Allowed depreciation, amortization, and depletion shall be predicated upon adjustments for current replacement costs, such that the total amount allowed over the full term of such deductions shall be equal to the replacement cost at the point of asset liquidation.

F. The tax deduction credits earned by individually owned, partnership-owned, and corporate farms and businesses shall be extended to individuals and households investing in the equity earning such depreciation, amortization, and depletion, and shall be extended as a proportional share of the tax-credit earned by the business entity making the relevant investment.

Explanation: If a household uses part of its income gained during a tax year as a primary investment in a business, transferring such sums as investment during the same tax year that portion of income was earned, or transfers an equivalent portion of past-accumulated savings, that household shall share a proportionate part of the whole investment's depreciation, amortization, and depletion earned as a deduction for that year and over the subsequent life of such a primary investment. There is no benefit accrued from purchase of equities in secondary markets.

G. Subject to rules and restrictions hereinafter stipulated in this *Act*, the Executive Branch of the federal government shall establish annually for this current year and each year thereafter a list of categories of research and development for which individuals, partnerships, and corporations shall be entitled to a direct credit against federal income taxes due.

The rules governing such deductions are as follows:

G.1. To qualify for such credits, the beneficiary of the credit must be an established farm or business firm using gross profits from sale of commodities other than the product of such research and development as a source of funds applied to the item of research and development being considered. Only that portion of the gross profit of the business or farm shall be qualified for investment tax credit.

G.2. The governing philosophy for establishing categories of such investment tax credits is a determination that private farming and business interests are engaged in a currently not-net-profitable form of research and development which is in the national

interest and which some federal agency would be obliged to undertake if private initiative did not.

G.3. Tax credits for this shall be apportioned to investors in the same manner as for depreciation, amortization, and depletion.

H. The Department of Commerce shall specify for the current fiscal year and for each subsequent fiscal year in a like manner a list of high-technology exports of tangible capital goods, agricultural commodities, and engineering services for which the producer of those goods or services shall receive a tax credit.

H.1. This shall include high energy-flux-density energy systems, including high-head hydroelectric and water-control projects, high-technology agricultural improvements, high-technology industrial capital goods and related engineering services.

I. Foundations and related tax-exempt institutions shall be taxed for all income earned in excess of \$10,000,000 in any tax year, except as herein specified. Exceptions shall include income directly used for religious and educational uses or wholly used for research in the physical, biological, and medical sciences, or directly employed for the development and delivery of medical and dental services, or used for payments of contracted pensions either as payments to pensioners according to contracted or adjusted schedules, or paid into sinking funds to aggregate amounts not exceeding those warranted by implicit pension obligations.

Except that gifts shall be treated as under standards and practices established immediately prior to the passage of this *Act*.

6. "Productive" Defined

For the purposes of this *Act*, the term "productive" is defined in a manner consistent with the 1791 *Report to Congress on the Subject of Manufactures* by Treasury Secretary Alexander Hamilton.

"Productive" means the promotion of scientific and technological progress, and the mediation of the implicit benefits of such progress into rises in the realized productive output of labor through capital-intensive investments in the production of tangible wealth.

However, there are two mediating steps in the process leading to improvements in output of tangible, useful goods which are not productive in and of themselves, but which are indispensable for providing the potential for rises in national productivity. These are the promotion

of scientific and technological progress as such, and those processes of public and higher education through which the potential productivity of the labor force is enhanced. Essential services, such as medical services, which enhance the health and longevity of a skilled labor force are also forms of nonproductive services which are indispensable to the quality of the households from which the labor force is recruited.

7. National Goals

At the close of World War II, over 60 percent of the national labor force was employed as productive operatives either in agriculture, or manufacturing, or construction, or mining, or transportation. During 1979, the percentile of the labor force so employed was in the order of 38 percent or worse.

Although public and private administration and services are intrinsically necessary to firms and government, they represent at best nonproductive "overhead" burden, paid for from the gross profits earned by the national economy and individual firms through production and sale of tangible useful product. Although increases in the ratio of capital to labor in direct production requires an increase in services and administration, especially the ratio of scientists and engineers combined per 10,000 productive operatives employed, the postwar growth of administration and services far exceeds the growth of aggregate gross profit earned by the national economy through production and sale of useful tangible product. It should be our national goal to increase the ratio of the total productive labor force employed in high-technology positions as productive operatives to about 50 percent over the immediate years ahead. The loss of national productivity caused by excessive growth in the ratio of administration and services is aggravated by combined under-investment and obsolescence in high-technology forms of agriculture, manufacturing, construction, mining, and transportation. Productivity is best measured as an increase in the ratio of energy employed per productive operative over and above muscle-power. This connection is mediated through the capital equipment provided for the productive employment of operatives, and correlates with a required increase in the energy-flux-density of energy production for household, agricultural, industrial, and other basic usages.

Therefore, it is the intent of the Congress, as attested by this *Act*, that the implementation of this *Act* and other statutes by the Executive Branch of the federal government shall be directed to effect the following trends in the evolution of our national economy.

A. The use of the power of taxation of the federal government to foster the flow of household and business

savings into capital-intensive productive capital investment in agriculture, manufacturing, construction, mining, and transportation, aiding this by a combination of tax incentives for such purposes, and by increasing the penalties for income exceeding basic household-consumption requirements disbursed in some other fashion.

B. To shift the ratio of the total labor force employed as productive operatives toward 50 percent.

C. To increase the rate of scientific and technological progress through emphasis on G.I. Basic research and development in the physical sciences, the biological sciences, in medicine, and in the emphasis on related knowledge and skills in public and higher education.

D. To foster capital-intensity in investment in employment of productive operatives.

E. To promote those forms of energy production which represent energy-flux densities equal to or in excess of those presently used for production of electrical energy by public utilities, with emphasis on the development of magnetohydrodynamic production of electrical energy from energy sources and the promotion of advancements and applications of nuclear energy technologies.

F. To promote the United States' development as an exporter of high-technology capital goods and related engineering services for the present and the future.

8. Medium-term Balancing of the Federal Budget

Provided that the United States enters into agreements with its allies of the European Monetary System, and others, to establish a new, gold-based monetary system which reorganizes the dollar-obligations, sometimes termed "Eurodollars," held outside the territorial United States, and that the United States values its gold reserves, the largest of any nation in the world, at prices for monetary gold agreed upon in concert with those allies, the United States can sustain the temporary imbalances in the Federal Budget that this *Act* will probably incur without perpetuating the double-digit inflation the dollar has suffered during the recent period.

Over approximately a two-year period, the combined effect of the measures stipulated by this *Act* and our nation's participation in creating an efficient form of new, gold-based world monetary system will be to expand the taxable income of the United States and to render certain present categories of federal direct and indirect social expenditures of welfare obsolete and unnecessary. The "tax dividends" generated in that way will serve to bring our Federal Budget into balance over such a period, aided by the role of the new monetary system and federal Executive action to bring prime rates back into the 4 percent to 6 percent range indispensable for sustained economic growth and prosperity.