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The Great Stagflation Swamp

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BROOKINGS

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The Great Stagflation Swamp

Arthur M. Okun

Speaking before the Economic Club of Chicago in October 1977, Arthur Okun warned his listeners that the following address would not send them home happy. While in his judgment the economic expansion still has a good deal of vigor and a substantial life expectancy, Okun doubted that the current strategy of economic policy will lead to a happy ending. Contending that we should not rely on more of that same strategy, Okun proposed some remedies for our economic ills, describing his message as a call for action rather than a forecast of gloom.

IN 1977, the United States will record a higher unemployment rate and a higher inflation rate than was experienced in any year between 1952 and 1972. We have not licked either of these two major problems; indeed, they have become intertwined and combined in a way that is historically unprecedented and, by the verdict of many economic textbooks, theoretically impossible. This nation has had serious inflation problems before; it has had prolonged periods of excess capacity and idle manpower before; but it has never previously faced a serious inflation problem after a prolonged period of slack.

The coexistence of stagnation and inflation or, as it has been dubbed, "stagflation," is a new problem. Yet we are dealing with it with old policies that are unlikely to solve it. The Carter administration—in this respect, like the Ford administration—is trying through traditional fiscal and monetary measures to attain both a sustained gradual recovery to full prosperity and a sustained gradual slowdown of inflation.

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That strategy is not succeeding. The modest recovery targets have been attained reasonably well over the past two-and-a-half years; the economic expansion has been a rather typical, standard-sized advance. But because the recession that preceded it was double sized, it has brought us only halfway back to prosperity. Thus we have paid heavily to keep our recovery moderate, and we have had no relief from inflation during the expansion to show for these efforts.

The basic inflation rate has been stuck at 6 percent since the spring of 1975. Nor is there any basis for confidence that relief is forthcoming. Indeed, in my judgment the inflation rate is more likely to accelerate than decelerate between now and 1979, even with a continuation of a slowly recovering economy. And once it becomes undeniable that the gradualist anti-inflation strategy has failed, I fear that monetary and fiscal policy will be tightened anew to restrain the growth of the economy, thereby courting the next recession.

In my view, a serious effort to deal with inflation and slack simultaneously must go beyond traditional fiscal-monetary policies. It must invoke specific measures to hold down prices and costs in both the private and public sectors. It must break the wage-price spiral that has so firmly and stubbornly gripped the system. I believe that a number of techniques in pursuit of those objectives deserve serious consideration. Let me state emphatically that the worthy candidates do not include a return to price-wage controls, such as the Nixon administration conducted in 1971–73.

Getting Stuck in the Swamp

As an autobiographical obligation, I must record that the most recent unhappy era of our economic history began late in 1965, while I served as an adviser to President Johnson. That is when the critical decisions were

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made to finance the Vietnam military buildup in an inappropriate inflationary manner. But the historical record will not support any "original sin" explanation of inflation that would attribute our ills of a dozen years to that mistake. Every wartime period in American history has been marked by a severe inflation; indeed, the Vietnam episode was the least severe. But the end of every previous war was marked by the end of inflation.

The unique experience of the seventies is that the end of the war was associated with an intensification of inflation. The double-digit inflation of 1973–74 was the product of many new mistakes and misfortunes: excessive monetary and fiscal stimulus in 1972, the devaluation of the dollar, the mismanagement of U.S. grain supplies, and the OPEC shock to energy prices.

Responding to that rip-roaring inflation, the makers of monetary and fiscal policy adopted extremely restrictive measures that brought on the most severe recession since the late thirties. That recession promptly cut the inflation rate to about 6 percent by the middle of 1975. But there we have been ever since, despite massive excess supplies of idle people, machines, and plants. If our economic institutions responded currently to a slump as they did in 1922 or 1938 or 1949, the recession and prolonged slack would not only have stopped inflation in its tracks but created a wave of falling prices.

In fact, the nature of price- and wage-making has been transformed in the modern era. We live in a world dominated by cost-oriented prices and equity-oriented wages. The standard textbook view of prices adjusting promptly to equate supply and demand applies only to that small sector of the U.S. economy in which products are traded in organized auction markets. And there it works beautifully; the prices of sensitive industrial raw materials *fell* by 15 percent between May 1974 and March 1975.

Elsewhere, however, prices are set by sellers whose principal concern is to maintain customers and market share for the long run. The pricing policies designed to treat customers reasonably and maintain their loyalty in good times and bad times rely heavily on marking up some standard measure of costs. For most products, prices do not rise faster than standard costs during booms nor do they rise less rapidly than costs during slumps.

Similarly, the long-term interest of skilled workers and employers in maintaining their relationships is the key to wage decisions in both union and nonunion situations. The U.S. labor market does not resemble the Marxist model in which employers point to a long line of applicants—"the reserve army of unemployed"—and tell their current workers to take a wage cut or find themselves replaced. Employers have investments in a trained, reliable, and loyal work force. They know that if they curbed wages stringently in a slump, they would pay heavily for that strategy with swollen quit rates during the next period of prosperity. In a few areas, where jobs have a high turnover and thus employers and employees have little stake in lasting relationships, wages do respond sensitively to the level of unemployment. But in most areas, personnel policies are sensibly geared to the long run. Workers seek and generally obtain equitable treatment, and the basic test of equity is that their pay is raised in line with the pay increases of other workers in similar situations. Such a strategy introduces inertia in the rate of wage increase, creating a pattern of wages following wages.

The customer and career relationships that desensitize prices and wages from the short-run pressure of excess supplies and demands have a genuine social function. They are not creations of evil monopolies but rather adaptations to a complex, interdependent economy in which customers and suppliers, workers and employers benefit greatly from continuing relationships. In general, the persistence of inflation is not a tale of villainy. By any standard, and by comparison with other industrial countries, American unions have been remarkably self-restrained in recent years. Business, meanwhile, has kept its markups below levels that would be justified by the current cost of capital.

In combination, business and labor have been raising prices about 6 percent a year and increasing hourly compensation (wages, private fringe benefits, and employers' payroll tax costs) by about 8 percent a year. The 8-and-6 combination allows a typical margin of real wage gains in line with the normal trend of productivity. Precisely for that reason, it becomes self-perpetuating. New wage decisions are made against the background of 8 percent advances in other wages and 6 percent increases in prices. And so they tend to center on 8 percent. Then, with hourly labor costs rising by 8 percent, businesses find their labor costs per unit of output up about 6 percent, and so their prices continue to rise by 6 percent.

There is no handle on either the wage side or the price side by which we can pull ourselves out of this

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stagflation swamp. Nor can any single industry or union provide a handle, except by making an unreasonable sacrifice of its own self-interest. It must do what everybody else is doing in order to protect itself. Analogously, if all the spectators at a parade are standing on tiptoe in an effort to get a better view, no individual can afford to get off his uncomfortable tiptoe stance. Ending the discomfort requires a collective decision.

Production and Jobs

Because prices and wages respond only a little to changes in total spending, production and employment respond a lot. And that is the fundamental limitation of fiscal and monetary restraints as a means of curbing inflation. Those policies clearly can put the lid on total spending for goods and services. The holddown in total spending is then split between a cutback in production and a slowing of inflation. But that "split" is the result of price and wage determination; it is not controlled by Washington. We learned—or should have learned—in the past three years that the split is extremely unfavorable. The reaction to weaker markets is loaded with layoffs, no-help-wanted signs, cutbacks of production schedules, and slashes in capital budgets. At most, it is sprinkled with holddowns in prices and wages. To save one percentage point on the basic inflation rate through policies that restrain total spending, we lose more than five points—easily $100 billion—of our annual real GNP.

The recession and slack of 1974–77 have exacted a toll of $500 billion in lost production of capital goods and consumer goods that could have added to our productivity and our standard of living. That cost should be clearly recognized, although it must be equally recognized that there was, and is, no toll-free route of escape from our problems. In fact, the toll keeps mounting. After thirty months of economic expansion, we have moved only about half the distance from the depths of the recession to a reasonable and feasible level of prosperity or full employment. Serious statistical studies designed to estimate the unemployment rate associated with reasonably balanced—neither slack nor tight—labor markets converge on a range between 5 and 5.5 percent. They demonstrate that with today's structure of labor markets, full employment certainly cannot be defined as a 4 percent unemployment rate. But neither can it be pegged anywhere near our recent 7.1 percent. Since unemployment has come down from 9 percent at the worst of the recession to 7.1 percent, we are about halfway to a reasonable cyclical target in the zone of 5 to 5.5 percent.

"We cannot count on our current policies to pull us out of the stagflation swamp. The evidence of recent years has accumulated and become overwhelming. The time has come to face the likelihood that we have a losing hand, and to deal a new one."

The excess of nearly two percentage points in the unemployment rate is not a structural phenomenon; it is not concentrated in "unemployables," secondary workers, or groups especially affected by government benefit programs. It is instructive to compare the unemployment rates of eminently employable groups today with their 1973–74 average:

	August 1977	1973–74 Average
	(percent)	
Married men	3.5	2.5
Craftsmen	5.5	4.0
Factory workers	7.0	5.0
"Job losers"	3.4	2.1
	(weeks)	
Average duration of unemployment	13.5	9.8

Unemployment remains high because production has not grown enough to generate the jobs required to get us back to prosperity. The behavior of the unemployment rate in recent years poses no mystery. Indeed, it has moved remarkably true to form in relation to the growth of production. Between 1973 and 1977, our annual growth rate has averaged 2 percent, and such a substandard growth performance entails a much increased rate of unemployment. Economists can disagree about whether the nation's "potential growth rate"—the rate of growth of real GNP that maintains a constant unemployment rate—is as low as 3.3 percent or as high as 4 percent, but it surely is not 2 percent. If I use my favorite number, 3.75 percent, for the potential growth rate, the 2 percent average actual growth rate since 1973 would be expected to raise the unemployment rate by 2.3 percentage points, in line with a rule-of-thumb formula that I developed in 1961. That would point to an unemployment rate a little above 7 percent currently, and that is where we are.

The potential growth rate of the economy is influenced by trends in productivity and in labor force participation. In the seventies, a rising fraction of women and young people have chosen to enter the labor force. That increase in "work ethic" permits the economy to enjoy greater growth without encountering tight labor markets. Indeed, in its absence, the rather disappointing

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trend in productivity would have significantly lowered our trend of potential growth. To be sure, if women and teenagers stopped hunting for jobs and went back to their knitting and ball-playing, respectively, our unemployment figures would be lower. But our labor markets would be tighter, and the potential of the economy would be reduced. The increased labor force participation of these workers is correctly viewed as an opportunity and not as a burden.

At the level required to bring the unemployment rate down to the middle of the 5-to-5.5 zone, our real GNP would be about $100 billion, or 5.5 percent, above its present level. The evidence suggests that our plant capacity could accommodate that extra output without strain, so long as it was broadly spread across sectors. Such a judgment must rest on estimates of operating rates, which are admittedly imperfect. But they are not likely to be seriously biased, either upward or downward. The estimate of capacity may inappropriately include some outmoded facilities, but it is just as likely to omit some rehabilitated facilities.

In short, idle resources and sacrificed output continue to represent an enormous national extravagance. Economists ought to be devoting more of their efforts and ingenuity to correcting that waste and less to talking it away or defining it out of existence.

The Costs of Inflation

Just as 7 percent unemployment is not full employment, so 6 percent inflation is not price stability. For the past two years, inflation has been reasonably steady and relatively well predicted, yet it remains domestic Public Enemy No. 1 in the view of a majority of the American people. I find that entirely understandable. In a system that rests on the dollar as a yardstick, a scorekeeping device, and a basis for planning and budgeting, the instability of the price level adds enormously to uncertainty and risk.

In our institutional environment, most people cannot hedge their wealth or their incomes against inflation. The single-family home has been the only major asset that has served as an effective inflation hedge during the past decade; and it obviously is not a feasible outlet for steady flows of saving. Common stocks have been miserable failures as inflation hedges; savings deposits and life insurance offer no effective inflation protection. A small minority of Americans have obtained cost-of-living escalators that effectively protect their real incomes against inflation. But their escalated wages are passed through into prices and thereby destabilize the real incomes of the majority whose earnings are not indexed. Escalators are a means of passing the buck among groups within our society, not of protecting the buck for the whole of society.

This country has not adapted, and is not adapting, to 6 percent inflation. The tolerable rate of inflation in this society is considerably below 6 percent. In the early sixties, 1.5 percent inflation was generally regarded as tolerable; in the early seventies, a 3 percent rate was widely accepted. If we were now to label 6 percent inflation as acceptable, who could believe that such a decision was the final turn of the ratchet? This country needs an effort to restore the reliability of the dollar, not a set of innovations to replace it; it needs an effort to curb inflation, not a program to learn to live with it.

With current prospects and policies, the basic inflation rate is not likely to drop below 6 percent during the remainder of the present economic expansion. To be sure, the inflation rate fluctuates from quarter to quarter, and minor wiggles and jiggles tend to generate vain hopes and groundless fears. Recent declines in farm prices and a downward blip in mortgage interest rates have generated favorable news. That is genuinely reassuring evidence that the jump in inflation to an 8 percent rate earlier this year was transitory. But the latest figures do not signify a fundamental improvement that is likely to be sustained.

Our chance for some net relief from inflation has been reduced by a new wave of congressional actions that add to particular costs and prices. Employers' hourly labor costs will be raised by hikes in payroll taxes in January 1978 for both social security and unemployment insurance. Further increases in payroll taxes are contemplated to finance proposed reforms of social security. The minimum wage seems slated to move up from $2.30 to $2.65. The first installment of the wellhead tax on crude oil is scheduled to take effect in 1978. Government farm programs have reinstituted acreage cutbacks, deliberately reducing the productivity of our agriculture. Many of these cost-raising measures have some justification. No one of them spells the difference between price stability and rampant inflation. But, in combination, they may well add 1.5 percent to the inflation rate by late 1978.

This wave of cost-raising measures deserves far more attention and scrutiny than it has received. Reliance on such measures is nothing new, but their total magnitude does set a new record. The Congress may have been tempted to load costs on the budgets of consumers and employers in order to avoid loading more onto the federal budget. In several of these areas, the President initially advanced proposals that were admirably restrained, but then compromised in the face of strong political opposition. (When some of the press welcomes such instances as evidence of the President's education in the ways of Washington, I cannot share the enthusiasm.) Meanwhile, the financial and business community has been so preoccupied with Thursday afternoon re-

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ports on the money supply and reestimates of the federal deficit that it has missed the big new inflationary game in town.

All things considered, my best guess is that between now and 1979, inflation is more likely to accelerate than to decelerate—and not because of overly rapid growth or excess demand.

With that inflation forecast, a good growth performance in 1979 and 1980 seems unlikely. Bad news on inflation would turn into bad news for prosperity in several ways. First, it would mean higher interest rates. Short-term interest rates cannot responsibly be held below the inflation rate indefinitely. To me, an interest rate on Treasury bills above 7 percent would sound an alarm; it would lead to disintermediation and create a mortgage famine that would starve homebuilding. Second, in an environment of stubborn and intensifying inflation, the makers of fiscal policy would be understandably reluctant to provide any stimulus to the investor or consumer that might be needed to sustain growth. Third, bad news on inflation would heighten consumer anxiety and once again weaken discretionary household spending.

The connection between worsening inflation and a subsequent recession is not magic or automatic, but it is genuinely built into the attitudes and expectations of our public and our policymakers. "Inflation backlash" is a reality. Given that reality, we simply cannot take the risk of doing what comes naturally and hoping for good luck.

Thus, my principal message is that we cannot count on our current policies to pull us out of the stagflation swamp. The evidence based on the experience of recent years has accumulated and become overwhelming. "Patience and fortitude" is no longer an acceptable response to our disappointments. The time has come to face the likelihood that we have a losing hand, and to deal a new one.

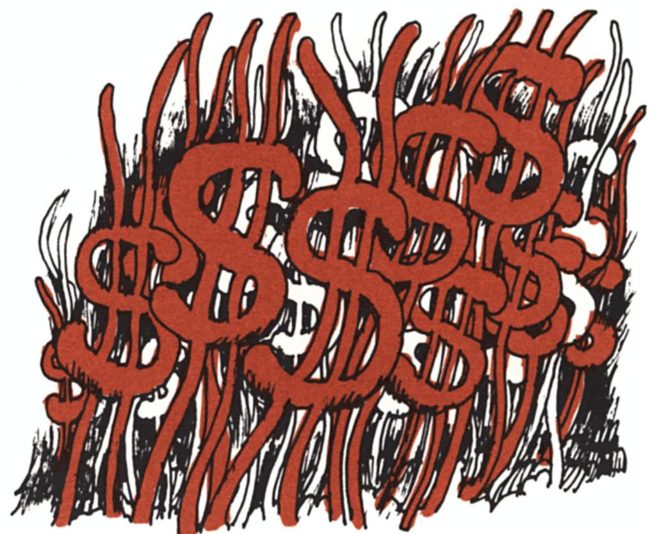
A Fiscal-Monetary Cure?

Some who accept my grim verdict about current policies call for a new monetary-fiscal strategy. And they point in opposite directions. On one side, the argument takes these lines. If a slack economy is not curing inflation, then why take the high costs of slack? Why not try to grow out of the inflation with stimuli, such as large permanent tax cuts backed up by a monetary policy committed to low interest rates, that have reliably spurred growth every time they have been applied in the past?

On the other side, the reverse case is made. If inflation is not abating with 5 percent real growth, isn't it clear that we need more restrictive policies to slow the economy down until inflation responds?

These polar-opposite proposals have in common the justified anxiety that our current act of juggling two eggs may lead to both getting broken. But I fear that they have one other thing in common that is less admirable. They are asking us to kid ourselves. The expansionists are right in that production and jobs are good things—but not because they alleviate inflation. Any major stimulative strategy, taken alone, will hasten the day that inflation accelerates and that inflation backlash sets in. The restrictionists are right in that a big enough dose of restraint would curb inflation—but only at the price of some $100 billion in output per point of inflation reduction.

Some groups in the business and financial community no doubt would applaud a hypothetical announcement that the government was cutting its spending by, say,



$30 billion and that the Federal Reserve was now setting monetary targets aimed at, say, only 7 percent growth of nominal GNP. But when government contracts were rescinded, when banks began closing loan windows, when cash registers stopped ringing, the responses would be entirely predictable: new waves of layoffs, new slashes in capital budgets, a collapse in productivity, and new demands that the government stop imports, shorten workweeks, and launch programs of makework jobs.

Perhaps the most appealing variant of the restraint prescription is the call for a *very gradual*, but consistently maintained, slowing of monetary growth and reversal of fiscal stimulus. As far as I can see, that strategy —taken alone—offers us a long, dull headache instead of a short, severe one, but no smaller total amount of pain. Moreover, its plan to curb demand gently enough to avoid a recession surely sets a new record for finetuning. It reminds me of the story about the Greek boy who thought he could pick up a full-grown bull if he started with a newborn calf and lifted it every day. The

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first little trimming of total demand is a mere baby calf. It would not do production and employment much harm (nor would it do our inflation performance much good). But, as time progressed, that calf would grow into a bull —and we could not count on lifting it.

A Program for Prosperity and Price Stability

We need an anti-inflation program that is not an anti-growth program, and that goes beyond traditional fiscal and monetary measures. In the past three years, I have assembled long menus of measures that might hold down costs and prices without holding down production and employment. Now I offer a specific set of proposals. I do so uncomfortably—I left the business of packaging four-point programs nearly a decade ago, and I prefer to stay out of it. I do so diffidently—because the facets of the program have not been polished by staff work or constructive criticism. But I do so enthusiastically because I am convinced that the general approach it embodies represents our best hope for getting out of the stagflation swamp.

No net federal cost-raising. First, the administration should set a target of zero net cost-raising measures for 1978, and should report quarterly to the American people on the achievement of that target. Any new cost-raising governmental action that imposed higher labor costs on employers or higher prices on consumers would have to be neutralized by a federal cost-reducing measure—lightening the burden of regulation or providing a cost-cutting subsidy. Thus we would be insured against an encore of the cost-raising actions of 1977.

Sales tax–cut incentive. Second, the federal government should institute a grant-in-aid program that would defray half the revenue loss of any state or city that reduced or repealed its sales taxes during 1978. Mayors and governors obtaining federal aid for sales tax cuts would pledge not to increase other cost-raising taxes during the period (but could raise income taxes). An allocation of $6 billion of federal outlays for this program would fund a 1 percentage point cut in the consumer price index. Sales taxes are part of the cost of living, both genuinely and statistically. Reductions in those taxes would hold down consumer prices and have anti-inflationary effects on wages that are linked, formally or informally, to the cost of living.

Tax relief for price-wage restraint. Third, a tax relief incentive should be offered to workers and businessmen who enlist in a cooperative anti-inflationary effort. To qualify for participation, a firm would have to pledge, at the beginning of 1978, to hold its employees' average rate of wage increase below 6 percent and its average rate of price increase below 4 percent (apart from a dollars-and-cents passthrough of any increases in costs of materials and supplies) during the course of the year. In return for participation, employees of the firm would receive a tax rebate (generally through withholding) equal to 1.5 percent of their wage or salary incomes with a ceiling of $225 per person; the firm would receive a 5 percent rebate on its income tax liabilities on domestic operating profits.

Any firm covered by a collective bargaining contract would be obliged to consult with union representatives before deciding to participate in the program. Typical workers who were counting on before-tax wage increases of 8 percent or less would benefit from participation.

I would hope for strong moral suasion, led by the President himself, to enlist participants in the program. But nonparticipation would be a matter of free choice and not subject to penalty. At the end of the year, each participating firm would file a statement of compliance that would be subject to audit by the Internal Revenue Service.

The total cost in federal revenues of the cooperative restraint program might approach $15 billion; with the sales tax grants, it could total $20 billion. Tax cuts of that magnitude are being widely espoused in the context of the forthcoming tax reform program. I would postpone the tax cuts in the reform package in the conviction that a pro-growth, anti-inflation program deserves a more urgent priority on the nation's agenda.

Obviously, the increase in purchasing power and profitability provided by the anti-inflationary tax cuts would stimulate consumption and investment. Indeed, the prospect of a credible attack on inflation could reduce the uncertainty that now constricts capital budgeting. If the program achieved its objective of a mutual and balanced de-escalation of wages and prices, there would be no overhang of "catch-up" wage and price increases in 1979. But opportunities should be held open for renewing the program (or phasing it out more gradually) in an effort to cut inflation once again.

New GNP targets. Fourth and finally, the administration and the Federal Reserve in cooperation should set forth revised fiscal and monetary targets designed to ensure full recovery *and* lower inflation. For 1978 those targets should aim for an encore of the increase in *nominal* GNP of 1977—about 10.5 percent—with more real growth and less inflation. For 1979 and 1980 they should aim to bring the growth of nominal GNP progressively into single-digit territory. Thus they will call for declining federal deficits and slowing money growth (appropriately adjusting for any further significant shifts in velocity). Such a fiscal-monetary strategy should strongly reinforce the credibility of the anti-inflation program and help to ensure that we don't slide back into the swamp.

Still, the first requirement is to get out of the swamp.

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My program is neither a panacea nor a long-run insurance policy against inflation and stagflation. But its approach offers a good chance of bringing about a mutual de-escalation of prices and wages, and an end to the insidious wave of governmental cost-raising actions. It recognizes that traditional monetary-fiscal policies are powerful tools to promote full recovery and to prevent a resurgence of excess-demand inflation. But it also recognizes realistically that they cannot by themselves cure stagflation. That new problem requires the additional help of new remedies, which of necessity are unconventional and unproved. Whether the new remedies become politically feasible will depend on whether knowledgeable Americans face up to the reality that we are likely to remain stuck in the stagflation swamp with current policies, and whether they are willing to consider seriously—and to criticize constructively—alternative routes to noninflationary prosperity.

Why Red Tape?

RED TAPE is everywhere and everywhere it is abhorred. How can any product of the human mind be so unpopular, yet so widespread and enduring? That mystery is addressed by Herbert Kaufman in *Red Tape: Its Origins, Uses, and Abuses.*

Kaufman's findings may surprise those who believe that red tape results from official stupidity or laziness, or from a conspiracy of bureaucrats. He points out that, like the rest of us, government officials are tied up in red tape and dislike it as much as anyone.

"We accuse them," Kaufman says, "because, intuitively, we want to divert the guilt from the real cause: ourselves."

Maintaining clinical detachment from the subject, Kaufman examines red tape as part of the political and organizational life we have fashioned for ourselves. In that setting, red tape turns out to be at the core of our institutions rather than an unwanted byproduct.

Of Our Own Making

Red tape is of our own making, Kaufman contends, because every governmental restraint and requirement originates in somebody's demand for it. One person's "red tape" is another's hard-won procedural safeguard. But there are so many of us, and such a diversity of interests, that modest individual demands result in great stacks of official paper and bewildering procedural mazes.

For example, Kaufman declares, we spawn red tape when we ask the government to protect people from each other, as in relations between buyers and sellers. From this generous impulse has come a swarm of regulatory agencies and volumes of administrative rules affecting foods and drugs, advertising, hazardous substances, and passenger safety. Government also intervenes in relations between employers and employees, universities and students, bankrupts and creditors, shippers and carriers, banks and depositors, and many others.

"Every such interposition," Kaufman says, "is a response to a cry for help from some group unable to defend its interests by itself. . . . Much of the great volume of governmental requirements and prohibitions that we encounter on all sides owes its existence to the government's endeavors to keep some people from being hurt by other people."

Red Tape: Its Origins, Uses, and Abuses, by Herbert Kaufman. Published September 1977, 100 pages, $2.95 paper, $7.95 cloth.

Still more red tape arises from our ingrained distrust of government.

"Americans assert a need to be protected *from* the government as well as *by* it," Kaufman says, "and they recognize a need to protect *it* from those who would despoil it." To safeguard against abuses and ensure that government remains representative, "there are watchdogs who watch watchdogs watching watchdogs"—in the Treasury, the Office of Management and Budget, the General Accounting Office, and so on and on.

"Much of the often-satirized clumsiness, slowness, and complexity of government procedures is merely the consequence of all these precautions," Kaufman says. "Things would be simpler and faster if we were not resolved to block abuses that turn public goods to private profit."

But the greatest generator of red tape is our system of taxation with representation. Everyone has a finger in the making of tax policy—and in a society as diversified as ours, that means a lot of fingers. The tax system becomes more elaborate and complicated as each set of

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