An Early Test of Reagan's Economics

NASA, synfuels, breeder reactors among the high technology items the new OMB chief may put on low priority

One of the new President's first tasks will be to decide just how much of his special economic medicine he will give the nation in the first dose. If he heeds a couple of the economic advisers who helped him through the campaign, Representatives Jack Kemp (R-N.Y.) and David Stockman (R-Mich.), he may try to carry out a general reduction of 2 percent in federal nonmilitary spending and cut back on several technological development programs.

Stockman, the new head of the White House Office of Management and Budget, has opposed government financing of synthetic fuel development, energy industry "commercialization" schemes, and subsidies to nuclear breeder reactors. He disapproves of federal bailouts for the auto companies and, in a memorandum to the President-elect, Stockman listed the National Aeronautics and Space Administration (NASA) as a "low-priority" agency—one of a group whose budgets he would like to cut by one-third.

Ronald Reagan's economic principles, as revealed in the 1980 party platform, suggest that many petitioners of government aid may find their requests turned aside by the new Administration. Yet the economic troubles the Administration faces are growing so rapidly that Reagan may have to make large exceptions to the general plan.

Reagan is the only one who can say how the Administration will proceed. His advisers are divided. Kemp and Stockman are pressing for quick, radical action. Failure to follow this advice, they wrote in a memorandum to the President-elect released in December, will lead to an "economic Dunkirk." In this view, the entire battle over economic policy could be decided in Reagan's first year. They think that to follow a moderate approach is to surrender.

At the same time, pragmatists in Reagan's camp are warning that it may prove disastrous to try to do too much in the first year. Slashing personal income taxes (as advocated by Kemp and Stockman) could create a large deficit. The government would have to borrow funds, driving up interest rates and accelerating inflation. The cautious advisers also say that too sharp an attack on the federal budget will provoke a sharp response from those who benefit from the status quo. The Reagan moderates think it is better to work slowly and take on opponents one at a time.

The budget question thus has become a major test of the President-elect's faith in his economic advisers. All agree on the general goals: They would like to reduce personal income taxes (Reagan has suggested a 30 percent reduction over 3 years), provide new tax breaks for savings and business investment, and reduce federal deficit financing. It would not be too difficult to do all this if Reagan intended to preside over a quiescent bureaucracy. But he does not. Instead, he proposes a massive expansion of the military. Republican defense policy-makers said during the campaign that they would like to see the budget for the Department of Defense increase by between $10 billion and $20 billion in the first year alone.

It seems likely that one of the large fiscal promises will have to be set aside for a time, or all will have to be trimmed. Trimming is the politic way out, but it is anathema to Kemp and Stockman. They warn that this easy solution will lead to chaos: "The thin Senate Republican majority and the de facto conservative majority in the House will fragment and succumb to parochial 'fire-fighting as usual' in response to specific conditions of constituency distress."

No matter what its wishes, the new Administration will be constrained by the fact that 75 percent of the U.S. budget is considered "uncontrollable." Expenditures in this category (amounting to $472 billion in the January 1980 estimate for fiscal 1981) are automatic: they are stipulated by public law or required by federal contracts still in force. Contract commitments (costing about $40 billion for defense and $60 billion for civilian purposes in fiscal 1981) may be reduced slowly as they expire. But to slash these "uncontrollable" costs, the President must persuade Congress to pass new, restrictive legislation, and he must prevent the bureaucrats from signing new contracts. Doing this takes time and provokes a lot of political opposition.

Budget cutters in a hurry tend to focus on the controllable one-quarter of the budget. Yet Reagan has said that two-thirds of this (about $92 billion in fiscal 1981) must not be touched. It pays for defense. Thus the remaining fraction of the controllable budget (about $58 billion) will have to bear the brunt of the early cuts. This is the portion of the budget that pays for running the federal agencies, and also provides funds for research and development.

How much will he cut?

New budget chief David Stockman.

Kemp and Stockman offered their own suggestions for slashing "controllable" costs. They propose a one-third cut in such "ineffective and low-priority programs" as those sponsored by NASA, the Comprehensive Employment and Training Act, the Department of Energy (DOE) commercialization and information division, the endowments for the arts and humanities, and seven others. The authors think it is possible to squeeze $8 billion out of these programs.

This summary of the figures shows how few opportunities a new President has for trimming costs. A soft target of attack, one might guess, would be Democratic-sponsored programs for loans and grants. The Republican Party platform explicitly condemns federal programs that meddle with the free market.

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And it notes, for example, that "the decontrol of oil and gas prices will eliminate any necessity for government support for a synthetic fuel industry, except possibly for limited demonstration projects." Similarly, a conservative columnist, Robert Novak, writing after the election in *The National Review*, argues against cuts in welfare programs on the grounds that they might lead to "social unrest." He counsels "quick and merciless pruning of the runaway programs of business subsidies, aid to local government units, and bureaucratic growth."

Much of the DOE budget will come under very close scrutiny and will undoubtedly suffer cuts if Reagan follows the advice of his DOE transition team. But the new Synthetic Fuels Corporation (SFC) could escape untouched. According to former congressman Walter Flowers, chief lobbyist and chairman for an association of industries that hope to benefit from the SFC's loans, the "train is already chugging down the tracks." Flowers adds: "I don't see them trying to stop it now. If I were President-elect Reagan I would ask Senators Baker, Hatfield, and McClure what they thought about it." Howard Baker (R-Tenn.) is the new majority leader. Mark Hatfield (R-Ore.) is the new chairman of the Appropriations Committee. James McClure (R-Idaho) is chairman of the Energy Committee. All of them like the synfuels corporation.

The SFC is quite popular. Even a self-described conservative like Senator McClure, whose goal in energy policy is "getting the government out of the business," will work diligently to keep alive this federal aid plan that benefits his own coal-rich state. McClure told a reporter after the election that he has "made some headway" in persuading Reagan to let stand the first $20-billion allocation of funds given to the SFC by Congress. McClure also made it known that he does not want to reduce DOE's budget as rapidly as some Reagan advisers would like.

A Democratic aide on the House Energy Committee gave three reasons why he thinks the SFC will survive unscathed: (i) "it contains too much pork for the Republicans to throw it away," (ii) "they can blame the whole program on the Democrats," and (iii) Reagan's people will be able to control the SFC's finances better than the "Georgia juveniles," and perhaps even turn a profit for the taxpayers.

All parts of the government's energy policy interconnect. If the SFC survives, it will be virtually assured that the windfall profits tax on crude oil will survive as well. Abolishing it was one of Reagan's goals. This tax, which takes effect at the time of the decontrol of domestic oil prices, will help pay for the SFC loans. Without the tax, some other method would have to be devised to finance the SFC, a problematic task in a year of tax cutting and budget slashing.

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Reagan had another important objective in this area—the rapid removal of government controls on fossil energy. Legislation already passed by Congress would decontrol oil and gasoline prices in the fall of 1981. (Natural gas prices would be decontrolled in stages beginning in 1985.) Representatives Stockman and Kemp argue in their memorandum that "Unless the whole remaining system of crude oil price controls, refiner entitlements, gasoline allocations, and product price controls is administratively terminated 'cold turkey' by February 1, there is a high probability of gasoline lines and general petroleum market disorder by early spring. . . . The Administration would lose the energy policy initiative and become engulfed in defensive battles. . . ." The advisers stress the real possibility that the war between Iran and Iraq may drag on, bringing a modest fuel shortage in the spring. If the Administration has not acted to release oil from controls before the shortage hits, the economic advisers say that there could be panic buying and lines at the gas stations. This could provoke a demand for retaining price and allocation controls.

Although the new Administration's economic theory demands rapid decontrol, Reagan may be reluctant to carry through on his principles, fearing the inflation he might bring. Reagan's most important campaign pledge was the explicit promise to revive economic growth. Prices and interest rates are rising rapidly at the moment. A sharp increase in energy prices a month or two from now could put unwanted new strains on the economy and push it into deeper trouble. Reagan will have to decide whether he prefers to accept the risk of immediate inflation, or the alternative risk of prolonging price controls.

The President will confront another dilemma in dealing with the battered auto industry. Sales of new American cars are declining. In the last week of November they were 17 percent below the level at which they stood a year ago. The Ford Motor Company has asked the government for emergency relief in the form of tariffs or quotas on Japanese imports. (The International Trade Commission voted "no," but Congress may give the President power to act independently.) The Chrysler Corporation, which was saved from bankruptcy this year with an $800-million loan guarantee from the federal government, has asked for another slice of federal assistance. An observer on the Senate Banking Committee staff expects Chrysler to exhaust all the federal aid that has been approved ($1.5 billion) by next spring, and still need more. American Motors informed stockholders that the company would go bankrupt if they did not approve a plan allowing the French company, Renault, to acquire a majority interest. They voted to let Renault take over. General Motors appears to be in good shape, although its sales were 7 percent lower this November than they were a year ago.

Reagan's economic advisers have warned him against providing a "quick-fix" for "wounded sectors of the economy." Stockman and Kemp specifically rule out any restraints on auto imports, and they urge the President-elect to be tight-fisted with funds for housing and public works programs, unemployment benefits, emergency aid for small businesses, and economic development projects sponsored by the Commerce Department. To give in, they argue, would be to create "a coast-to-coast soup line that dispenses remedial aid with almost reckless abandon."

They recommend instead a sweeping program of "regulatory ventilation," by which they mean the relaxation or deferral of health and safety requirements imposed by the government on industry. This would save companies billions of dollars, they say. And it could be carried out administratively by the President in the early months, to be justified later by

the passage of new laws. Fourteen actions are suggested as examples, including waiving the 1982 carbon monoxide emission standard for automobiles, rescinding the rule on airbags, relaxing 1983 and 1984 emission standards for heavy and light trucks, permitting more frequent violation of the air pollution standards for city ozone, and so on.

Here again the Administration may find it difficult to maintain the purity of its economic principles in the face of events. If the worst happens, will a waiver on carbon monoxide standards rescue Chrysler from its financial quicksand? If not, will the new President really tell the company it must survive without further help? Alternatively, if it becomes necessary to help Chrysler out again, will the new Administration turn away from other wounded companies: Ford, for example?

The point is that the economic and technological problems confronting the new Administration are growing so rapidly that decisions will have to be made early on a number of key issues—tax cuts, price controls, government involvement in the energy industry, and aid to the auto companies. These early decisions will have a profound effect on the shape of Reagan's economic plan.

The less ambitious course would be to muddle through, making only gradual shifts of emphasis in federal programs. But this choice would alienate some of Reagan's close economic advisers, like Stockman and Kemp. They predict that anything less than drastic action will lead to "severe demoralization and fractionalization of GOP ranks and an erosion of our capacity to govern successfully. . . ." It will be interesting to watch Reagan pick his way between the demands for adherence to his austere economic principles and the demands of the orthodox federal establishment.

—ELIOT MARSHALL

Pentagon Orders End to Computer Babel

To halt a proliferation of computer tongues, the Pentagon has built a universal language; but rebels fight the unification

And the Lord said, Behold the people are one, and they have all one language; and this they begin to do: and now nothing will be withheld from them, which they have imagined to do.

Let us go down, and there confound their language, that they may not understand one another's speech.

—Gen. 11:6-7

Confronted with a costly and at times chaos-producing array of more than 1000 computer languages, the Pentagon 5 years ago decided to develop a single tongue for the thousands of computers in the Department of Defense that aim weapons, watch for Soviet ballistic missles, guide patrolling submarines and bombers, and relay critical information to battlefield commanders. The language has now made its debut, and the Pentagon hopes it will eventually spell the end of computer babel.

As at the Tower of Babel, however, this single language is already under fire. Some academicians who perform research for the Pentagon feel that mandatory use of a single language will hamper their creativity. And the Navy is resisting introduction of the single language.

Called Ada, in honor of Augusta Ada Byron, the world's first computer programmer and the only legitimate daughter of English poet Lord Byron, the language will cut the Pentagon's cost of developing and maintaining computer programs and will increase the reliability and speed of computer networks.

Pentagon experts say that Ada, unlike many other languages, is simple to use since it mimics human languages by incorporating common words and phrases in its programming and printed answers. Further, it has the functional richness for a diverse and demanding set of applications and can be used on almost any computer. Ada is a "high-order" language, one in which a single command initiates a series of low-level computer operations, much as the order to "fire" from a military commander sets in motion a series of complex actions among many soldiers. In most applications, a high-order language such as Ada is easier to use than a low-order one. Ada and the unique characteristics that make it so attractive to the military are the result of a 2-year international competition held by the Pentagon, the first of its kind.

The Army soon expects to have 13,000 computers, the Navy 33,000 and the Air Force 40,000. The software bill for military computers last year came to more than $3 billion. One study estimates that the introduction of Ada will result in savings of more than $24 billion by the end of the century.

Ada should also result in less electronic chaos. During the past 20 years the electronic links among the Pentagon's computers have greatly increased in number, bringing serious problems in networking, similar to having speakers of French and Farsi struggling to communicate with one another on the telephone.

Consider the case of the Pentagon's illfated Tactical Operations System (TOS), a $4 billion program that was meant to use computers to assist battlefield commanders in making tactical decisions. TOS had its own software. While a prototype TOS system was being tested during the 1970's, Pentagon managers tried to tie the TOS computers into other systems under development, such as TACFIRE (Tactical Fire Direction System), a computerized program for linking forward observers with artillery units. Since the TOS computers were to be central for all division-level operations, this interoperability with other field units

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