

Understanding Reagan

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Reagan has a special constituency, the new rich. The greatest success of the big government, interventionist capitalism that evolved out of the Roosevelt response to the Great Depression has been the creation of a large number of new rich. There are now more than a million millionaires in the United States. President Reagan is one of these new rich.

¶ These new rich are not very sophisticated intellectually. Typically they believe that their success is due to their own ability, drive, and hard work. They do not understand that the "Roosevelt" system first created the environment in which they became rich and then prevented another big depression that would have made many of them poor again. They reject the idea that they are the winners in a game that was fixed so as to create winners.

It is a political paradox that the greatest beneficiaries of America's big government capitalism are the core of the opposition to this system.

These new rich abhor taxes, even though they became rich in a high tax economy. The wide array of financial instruments that are now available make it possible to insulate wealth against inflation. The new rich do not fear inflation.

A good part of Reagan's constituency—especially in Texas and California, strongholds of Reaganism—welcome government spending on defense, space, and star wars. They reject the spending that delivers income or services to the poor. They supported and benefited from the tax reductions of 1981.

American ideology has strains that support the views of Reagan and the new rich. One fundamental ideological proposition, which is usually imputed to Thomas Jefferson, is "That government is best which governs least." In the history that most Americans know, the American Revolution was a rebellion against unjust and repressive taxes. A popular view ~~that~~ favors small government, low taxes, and ^{minimum} opposes government intervention in the economy.

Reagan has been very successful in using these sentiments to rally support for his programs. The Democrats have not been an effective opposition. The voices they raise, like that of Mario Cuomo, The Democratic Governor of New York, argue that fairness calls for the intervention of government. But the American Ideology of winning does not include compassion for the poor; being poor is a personal fault, not a result of system behavior.

Democrats have not made the strong argument that effective government interventions are necessary to prevent recessions from becoming depressions and that prosperity and economic progress in a capitalist economy can only be sustained if government is big and acts in a proper way. In order to make this argument it is first necessary to understand that capitalism has serious flaws. The typical Democratic politician of the 1980's does not understand this.

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Even though they were not Socialists, the Democratic leaders of the 1930's understood that capitalism was flawed.

The intellectual underpinning of the Roosevelt coalition was largely ^p populist and insitutionalist.

The institutionalists were a progressive "school" of economists who simultaneously were critical of free market capitalism and skeptical of the efficacy of ^e comprehensive public ownership.

The tax bill of 1981 lowered taxes and created a permanent structural deficit: The United States now has ~~high~~ deficits even when the economy is running well. Current deficits are not the result of recessions or emergency spending. The 1981 tax bill expressed the dislike of taxation and the lack of fear of inflation of Reagan's primary constituency.

However, to Reagan and his sophisticated conservative advisors the tax reduction was but the first item on an unadvertised agenda that aim to diminish greatly the role of government in the economy. Their program looks beyond the tax cut to a reduction in government civilian spending by a wholesale elimination of government programs. This is to bring about a balanced budget at a significantly lower level of government involvement in the economy.

They haven't been able to effect the second step of this program. To a large extent government spending is the result of contracts that cannot be easily repudiated. The strongest example is interest on government debt. Chaos would result in financial markets if there were any hint that the United States Government might repudiate its obligations on its debt. Social Security, Medicare, and government pensions to both civilian and military employees are also contractual commitments. Congress and for that matter President Reagan have not been willing to face the political consequences of repudiating or greatly modifying these contracts:

In spite of valient efforts to reduce spending on civilian operations, spending has not been cut to the level set by tax receipts. In part this was due to the recession of 1981-1982; in part because of some overly optimistic beliefs as to where national income and tax receipts would be after the recession. As a result there have been five years with enormous deficits; the total outstanding debt has doubled over the past five years. This

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has added a major spending item to the budget. Reagan's 1981 program, to cut taxes before cutting government programs, has outsmarted itself. Government tax programs now have to be substantially greater than before for the realization of any desired program of military and civilian spending.

The Reagan people have consistently underestimated the popularity of Social Security and Medicare. Not only ~~are these~~ are these programs viewed as contracts by the public but the benefits are widespread. Even Reagan's special consistency, the new rich, have family and friends who benefit. Repudiation of these contracts or even a large reduction ~~are~~ ^{are} ~~are~~ politically very difficult to achieve. Congressmen fear to offend the aged; Social security and Medicare are political "sacred cows".

Reagan's program for defense spending reflects his strongly held views about Communism and the Soviet Union. Reagan was an ~~active~~ ^{active} member, even president, of the Hollywood actors union. During that time he was an active left of center Democrat. When such Democrats organized in support of Harry Truman and in opposition to Henry Wallace in 1948 they ~~organized~~ ^{organized} Americans for Democratic Action, which to this day is the core of the Democratic Party's left. Reagan was a member of Americans for Democratic Action. He was active in the California branch.

Many American union activists who ~~became~~ ^{became} strongly anti-communist felt that they had been personally betrayed or used by Communist factions within their union. Reagan became strongly anti-communist as a result ~~of~~ ^{of} union politics.

There is a strong element of having been personally betrayed in some of Reagan's views on Communism and the Soviet Union.

A core belief of many Reaganites is that the Soviet Union is inefficient and intellectually backward. They believe that an escalation of the arms race will provide the straw that breaks the camel's back of communist power in the Soviet Union. Using the language of poker, they want to raise the stakes in the defence spending game so that the Soviet Union "folds their cards". To date the camel's back has not been broken. This is interpreted as showing that more straws are needed.

Star wars is not a defence scheme. It is designed to increase the stress on the Soviet economy. Because of this view, ever increasing defence spending must be protected; they are a non-negotiable part of Reagan's program.

Reagan's low tax position is inconsistent with the basic civilian and defence spending programs and the traditional conservative position for a balanced budget. In a move to gain political capital and to embarrass the Democrats, two junior Republican senators, Gramm and Rudman introduced a balanced budget bill. This bill set ever lower ceilings on the deficit for each of the next five years, at which time the budget is to be balanced, presumably for ever after.

The bill provides that if the President and the Congress do not agree on the targeted deficit then equal percentage cuts are to be made in all eligible spending programs. The well nigh transparent aim of Gramm Rudman is to bring social security and medicare into the spending that

was eligible for cutting; these "sacred cows" are to become not quite so "sacred".

The Democrats saw in Gramm-Rudman a way to embarrass the President. Democrats view the increases in defence spending as being excessive, they regard social security and other transfer payment schemes as essential parts of a modern society, and they believe that taxes have to be high enough to pay for government programs. However the Democrats know that Reagan will attack them as the high tax party if they take the initiative on raising taxes. In order to force the hand of the President the Democrats made certain that Gramm-Rudman provided that defence spending would be included in the spending eligible for automatic cutting. They also succeeded in exempting social security and medicare from the automatic list.

In the annual budget process the President has the first move. The President has prepared a budget that falls within the Gramm-Rudman target for next year. He achieved this by making very optimistic national income forecasts and eliminating a multitude of programs. He also presented a defence budget that is large enough to withstand the automatic cuts, if they go into effect. Gramm-Rudman, which started as a purely political move, has become the arena on which fundamental differences in American politics are being played out.

Reagan has changed the subject of the political debate in the States, The question is now " What can be properly

left to the play of market forces and what requires intervention by the state?" Reagan has forced us to think about fundamentals.

Reagan's answer is clear, "Hardly anything requires intervention by the state". Reagan believes he is making the United States a model for a free market democratic world.

In his State of the Union message he said:

The United States is the economic miracle, the model to which the world once again turns."

This bombast is not the way an unbiased observer would characterize the present position of the United States.

But Reagan is looking ahead. In his own mind he sees what the United States is supposed to be after "free market" forces are unleashed. He has an utopian vision ^{of} a free market economy. His vision has no room for the flaws in the market system that leads to mass poverty in the midst of plenty and serious depressions that bring both unemployment and an epidemic of impoverishment that strikes particularly hard at the new rich.

Reagan's vision abstracts from the complexities of modern capitalism. Once the full complexity of a modern market economy is appreciated then it becomes clear that there is a need for government interventions. The market system requires the assistance of government in developing and creating resources, especially human resources. Furthermore there is a need to constrain and offset those free market forces that make not only for Great Depressions but

but also for inflations.

Reagan has been skillful in exploiting major themes in the American ideology. He has used his political success to advance the interests of the new rich. His campaign against government involvement in the economy found ready targets in programs that had lost their reason for being and in programs whose unintended consequences were deemed "bad". Reform and revision of the system of government intervention was needed.

Because many details of the 1980 structure of intervention were obsolete, had failed to achieve their intended purpose, or had serious unintended consequences does not imply that a free market non-interventionist capitalism is devoid of serious flaws. Those who understand that a free market economy is flawed, even as they appreciate the strengths of the market way of organizing the details of the economy, need to respond to Reagan by developing logical and administratively feasible systems of intervention. This program needs to recognize that many of the inherited system of interventions are obsolete or counterproductive. This after Reagan synthesis has not as yet appeared in the United States. Reagan's success is partly due to the intellectual weakness of the proposals of his political opponents.