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Reagan Speaks with Forked Tongue

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from the not-so ivory tower

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The Reagan policy agenda was to destroy The New Deal. To do it: provoke a crisis—a massive government deficit.

The resolution to the budget deficit is higher taxes—much higher than if the Reagan supply side program had never been adopted.

By Hyman P. Minsky

"Reagan's Inflate-the-Deficit Game" was the heading on Senator "Pat" Moynihan's Op-Ed page contribution in *The New York Times* of Sunday, July 21. A drawing of a smirking character with a long forked tongue illustrated Moynihan's piece. The message was clear: The Reagan administration has not told the truth, the whole truth and nothing but the truth about taxes and spending. The familiar Indian wisdom "White man speaks with forked tongue" apparently applies to the Reagan administration.

Moynihan's piece was in part inspired by the imminent departure of David Stockman from Washington. Stockman was a main architect of the deficit and debt-laden economy that the Reagan administration created. Moynihan's contention is becoming accepted: The nation's debt and deficit predicament we now face is the result of a policy strategy that aimed to force a fundamental restructuring of the economy by first creating a crisis.

In his view, Reagan's main policy aim was to dismantle the New Deal to create a small-government, non-interventionist economy. However, the various provisions of the New Deal are popular, so that the attack could not be overt. A frontal attack was not politic, the destruction of the New Deal could only be accomplished indirectly in response to a crisis. Policy, therefore, required that crisis be manufactured.

The capitalism that the New Deal created is deservedly popular. Its measures—social security, medicare, unemployment insurance, etc.—lifted some of the fear of poverty, unemployment, and abandonment that haunts the vast majority who are neither rich nor successful. In addition, the New Deal restructuring created an economy that seems able to avoid deep and long depressions.

"Reagan speaks with forked tongue"

The Reaganites, many of whom are devotees of free-market economists, create policies in pursuit of an ideal-market economy. In the abstract systems that such economists and their followers often confuse with reality, Great Depressions cannot happen. They, therefore, feel justified in overlooking that the New Deal was a response to the great collapse of the American economy that took place between 1929-33. The New Deal, which aimed to create a free economy in which a Great Depression could not occur, was, in this view, unnecessary.

The evidence from the years since 1933 is that the New Deal was successful. We have not had a long and deep depression since the 1930s. The two decades immediately after World War II have been the best twenty years of our economic history. The danger in dismantling the New Deal is that the economy will once again become vulnerable to a great depression.

A Reagan policy agenda can be constructed by starting with the objective: Dismantle the New Deal. To do that a crisis is needed, a massive government deficit will do. To get such a deficit, taxes must be reduced and spending increased.

Tax decreases were defended and rationalized by supply side economics. Supply side economics was not and never has been a doctrine advanced by serious professional economists; its main advocates were publicists and ideologues. It builds on one universally accepted economic truism: every tax induces avoidance and evasive behavior. Such behavior will be more pronounced the steeper the tax, and the greater the revenues that need to be collected. Thus, while big government is better than small government because it decreases the likelihood of deep depressions, incomes are lower than they might be because of inefficiencies due to measures taken to avoid or evade taxes.

Supply side economists jump from the truism that income is reduced by measures taken to avoid and evade taxes to the proposition that lower tax rates in the United States economy will induce such a sharp rise in income that tax receipts will increase. The supply siders promised a free lunch. They delivered an exploding deficit.

The second move in the strategy to force a crisis—raise spending—was easy. Defense spending now increases as a percent of G.N.P. each year. Little discipline has been exercised: more may well be buying less.

Tax reduction and defense spending assured that there would be a larger deficit. The supply sider's guarantee of a quick rise in income was not validated. Furthermore, the fight against inflation, another part of conservative economic doctrine, was supposed to be painless. However, it led to a recession induced deficit. A debt induced deficit was added as the cost of carrying the national debt increased with the rise in interest rates.

As a result the deficit exploded. The cummulative effect of the deficits over the four years 1980-84 raised the national debt from $914 billion to $1567 billion. The estimate is that by September 1985, the debt will be twice as large as it was during the campaign of 1980.

At a 10 percent interest rate, the $900-billion addition to the national debt adds $90 billion to government spending; about half of this year's projected deficit is due to the debt increasing effects of the economic program put in place in Reagan's first year.

The economy is showing signs of critical weakness. A recession in the next year or two is quite likely. A recession will lead to an explosion in the deficit from the projected $200 billion to a possible $300 billion dollar range. Such a massive deficit will likely feed back upon the international exchange value of the dollar. The stability of the dollar-based international banking system will be threatened.

The crisis that the 1981 scenario had outlined will be upon us but with an additional $90 billion of spending because of the greater debt.

If we assume that defense spending at the accelerated Reagan rate will not be cut back and that a serious reduction in the safety net is not politic in a depressed economy, then the resolution to the crisis will be a rise in taxes. Because of the vastly greater national debt, the tax rates will be higher then if the supply side program had never been adopted.

The idea that the Reagan policy strategy of 1981 involved the deliberate inducing of a crisis may be farfetched. Certainly, the arguments for the tax cut in 1981 included fancy projections of income and tax revenues. Some of those making the forecasts should have known better. Certainly, the administrative response to the current deficit has been to float proposals to diminish if not dismantle the New Deal.

The forked tongue accusation of Moynihan and the *Times* may not be proven or provable—but there certainly was dissembling by the administration. It will be ironic if the budget crisis, that will be ushered in by the next recession, leads to a reconstituted revenue system that raises more in taxes relative to G.N.P., than the system Reagan demolished in 1981. ■

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S. 1312 would, if passed, make an evidentiary hearing mandatory.

But in hearings before the Commerce Committee, chaired by Sen. John Danforth, R-MO, few testified in support of the measure.

Fowler said the Senate bill would "shield (network) management from the usual discipline of the free market."

Turner called the bill "a pro-CBS, anti-Turner piece of legislation."

Pressler argued that the FCC was breaking with precedent in failing to hold hearings on a network takeover. Three times the Commission has examined the proposed acquisition of ABC: it held 93 days of hearings on the ABC-Paramount merger in 1953 it held two weeks of hearings in the proposed ABC-ITT merger in 1967, and ordered hearings when Howard Hughes attempted to acquire ABC in 1968. Hughes then dropped his effort.

Thomas Wyman, CBS chairman, testified in support of the bill, arguing the public had a right to know whether Turner has the resources to maintain the network's news and entertainment quality: "If a sufficiency of resources does not exist, the network can't exist."

Turner's hopes diminish

CBS moved last month to substantially diminish Turner's proposal to use so-called "junk" bonds and other notes in order to wrest control of the network.

Ironically, CBS's proposal announced July 3 to buy back 21 percent of its common stock increases the network's total debt to $1.35 million and raises the possibility that the network must sell the same properties Turner has proposed selling. The network proposes raising $300 million through sales of its assets.