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The Terrible Cost Of Reagan Compromise

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■ IN 1980 the American people, fed up with the discredited programs of a decadent "Liberalism," gave Ronald Reagan a mandate for change by electing him President of the United States. Conservatives were ecstatic. They believed they had at last found the Great Right Hope who would lead them to victory in the fight against Big Government. Instead, Ronald Reagan is leading them off a cliff.

President Reagan quickly proved a timid reformer. In 1981 he made a few positive changes, including the removal of price controls on oil and the enactment of tax-rate reductions and indexing to be phased in gradually. The past year, however, has witnessed the wholesale abandonment of Conservative policy objectives. Contrary to his seemingly sincere exhortations about the dangers posed by the Welfare State and the desperate need to reverse the Leftward direction of the major political trends, Ronald Reagan is presiding over their continuation without any real attempt to turn things around. Meanwhile, radical fanatics in the mass media provide cover, leading the general public to believe Reagan is really being Reagan.

Under the Reagan Administration the growth of Big Government and all its attendant evils has continued unabated. Taxes, spending, deficits, and the National Debt are all continuing to soar to levels previously attained only by astronauts.

THE UNITED STATES

Area: 3,623,420 square miles; Population: 226,547,346; Capital: Washington; Per Capita Income: $12,000; Head Of State And Government: Ronald Wilson Reagan.

There is probably no better index for measuring the expansion of government than by the growth in federal spending. Like a nuclear chain reaction at critical mass, the bigger it gets the faster it grows! It took 173 years, from the founding of the Republic in 1789 to the year 1962, for federal outlays to top the $100 billion level. The first $200 billion Budget, however, followed only nine years later! Only *four* years later the $300 billion spending record was broken in Fiscal 1975! A mere *two* years later the first $400 billion Budget was reached and surpassed. By Fiscal 1981, this official spending had rocketed to $657 billion.

Last year, in the Reagan Fiscal Year 1982, the federal Budget soared to the dizzying height of $728.4 billion! This means that in just twenty years spending by our national government is up by more than seven hundred percent. And the Reagan Budget prognosticators cautiously estimate spending for this year, Fiscal 1983, at $805 billion. This could well turn out to be a significant underestimation, however, in the face of the fact that the federal government spent $205.3 billion during the first three months of Fiscal 1983 alone! For the year, that comes to a staggering $821 billion! Which would mean that federal outlays are likely to expand by almost $100 billion in but one year.

Remember, this is under a "Conservative" Administration led by Ronald Reagan. At this rate, the federal government is spending $2.25 billion a day or $94 million per hour!

As a percentage of the Gross National Product, federal spending has risen from twenty-one percent in 1979 to twenty-three percent in 1980, to 23.5 percent in 1981, to 24.5 percent in 1982 — and to a projected twenty-five percent *this* year.

Where does all of that money go? Let's briefly examine federal spending for the single month of December 1982. During that holiday season, the U.S. Treasury was busy spending an awesome $72.4 billion in just thirty-one days. The figures break down as follows: health and human services: $23.4 billion; defense and military: $17.6 billion; interest on the National Debt: $16.3 billion; all other spending: $15.1 billion.

It should be observed that defense spending is not the primary culprit. There was a time, twenty years ago, when defense spending was proportionately larger as a percentage of both the federal Budget and the G.N.P. During the Kennedy Administration, defense outlays took forty-eight percent of the federal Budget, while "human resources" consumed twenty-five percent. Today, under the Reagan Administration and a radical Congress, defense spending is only about twenty-six percent of the Budget, while "social spending" consumes more than half. In fact, according to the Congressional Budget Office, in terms of actual outlays through Fiscal Year 1983, defense spending under Reagan is in constant-dollar terms $7.1 billion *below* what the Carter Administration proposed to spend for the same period!

Of course the Department of Defense is a huge, sprawling, wasteful, socialist bureaucracy — just like the other federal agencies. National defense is a proper function of our national government, but Pentagon expenditures are fat with pork-barrel money built into the defense budget by Members of Congress anxious to aid their localities. And it must be recognized that huge quantities of tax money spent under the general category of "defense" go to transfer payments like the so-called "social programs" designed to redistribute the wealth.

All Welfare schemes build up vested interests which can be counted on to resist significant cuts. But "Liberal" commentators who talk about the Military-Industrial Complex fail to mention the much larger Social-Welfare Complex. Social activists and "civil rights" groups are already engaged in a national voter-registration campaign aimed at Welfare recipients and the unemployed. The scheme, originated by Richard A. Cloward, professor of social work at Columbia, and Frances Fox Piven, professor of political science at City College of New York, has the endorsement of the N.A.A.C.P., the

National Association of Social Workers, and the usual swarm of Welfare Rights groups and Leftwing clergymen.

Under this plan, government employees of social-service agencies are to register "poor people" as they literally stand in line waiting to receive Welfare payments, unemployment compensation, Food Stamps, and so on. Cloward and Piven claim that these activities will not place federal workers in violation of the Hatch Act (which forbids federal employees from actively engaging in politics) because the voter registration drive is "nonpartisan."

Since it is easier to vote for a living than to work for one, the net tax receivers are being organized to vote more and more in subsidies from the already exploited net taxpayers. This is what inevitably happens when those who receive benefits from government are organized to vote their interest. In our opinion, those who don't work for a living shouldn't be able to vote for one.

When people begin receiving "free" benefits from the government, they soon look upon the largesse as some kind of acquired *right*, and cries of anguish result when any mention is made of reducing or eliminating their dole. Cutting Welfare and other transfer programs can therefore be made politically unpopular. The Reagan Administration has been both unwilling and unable to challenge the Left on this issue. Consequently, it has not succeeded in curbing the redistribution of wealth from the producers to the drones. It accepts as valid the premise that one person's claim of need imposes a moral and legal claim on everyone else's earnings.

Even so, despite the wailing and gnashing of teeth in the Establishment news media about "austerity programs" and "Reagan Budget cuts," there has been no net reduction in federal Welfare spending. Despite its proclaimed initial intentions to "hold down" spending and to balance the Budget, the Reagan team appears to have thrown in the towel on this one. The deficit portion of federal outlays is thus ballooning under Mr. Reagan, who has the dubious distinction of presiding over the first $100 billion-plus deficit and the first $200 billion-plus deficit in our history.

In Fiscal 1980 the federal deficit amounted to $59.6 billion — some 10.3 percent of federal outlays. In 1981 the deficit portion of federal spending stood at $57.9 billion. In Fiscal 1982 the Reagan Administration's Budget achieved the record-breaking level of $110.7 billion — some 15.2 percent of total outlays. The deficit for this year (Fiscal 1983) is expected by the Administration to be about $210 billion! This is a grisly twenty-six percent of total outlays! That projection, however, may be too timid since one hears from the Treasury that the deficits for the first three months of 1983 weighed in at $68 billion. That would come to a colossal $272 billion Budget deficit by the end of this Fiscal Year. It is more in one year than all four Carter deficits put together!

And even the officially reported and projected outlays do not account for the total amount of federal spending. Congress has devised means of concealing the true magnitude of the total bill which it imposes on the American people. There is, for example, the spending for such off-Budget entities as the little-known Federal Financing Bank. This was created in 1973 to provide low-cost loans to federal agencies and to borrowers using government-guaranteed loans. The F.F.B. gets its funds by borrowing directly from the Treasury. According to Henry S. Havens, Assistant Comptroller General, outstanding loans of the Federal Financing Bank last year grew to $124 billion; more than any commercial bank in the nation. Because the Federal Financing Bank's operations are not included in the federal Budget, the Budget deficit was understated by $14.1 billion in Fiscal 1982, Havens reports. Since 1975, federal agencies have made over $100 billion in un-Budgeted outlays through the F.F.B.

Such off-Budget expenditures — along with unrepaid federal loans and loan guarantees — will amount to more than $200 billion this Fiscal Year. When this is added to the on-Budget outlays, we get total spending which comes to more than one trillion dollars. What we have here is not a Budget at all, but a series of continually revised "estimates" and "projections" trying to keep up with the ever-expanding federal spending.

On January 31, 1983, President Reagan presented to Congress his "realistic" Budget proposal for next year's federal spending. His requests indicated that Mr. Reagan had given up even trying to effect a reduction in Big Government. He asked Congress for a spending level of $848.5 billion — equal to $14,356 for the average family of four — to run the mammoth federal state in Fiscal 1984, which begins on October first. The deficit is going to be in the neighborhood of $200 billion — probably much more. Incredibly, the Administration tried to sell this "projection" as Conservative in comparison to the "irresponsible" counterproposals of the Democrats. It is an example of the Republican pot calling the Democrat kettle black. The deficit for 1985 (not the Budget, the *deficit*) is officially expected to exceed $300 billion!

The President's Budget proposal projects that under the most optimistic assumptions — *if* all the appropriations levels requested by the Ad-

ministration are accepted by Congress, and *if* interest-rate and price-inflation projections come true — the sum of the Budget deficits over the next five Fiscal Years (1984 through 1988) will amount to $790 billion. That is more than the total Debt which the United States Government ran up from the beginning of the Republic in 1789 all the way up to the year 1978, only five years ago. This was a period spanning 189 years during which our government was involved in the War of 1812, the Mexican War, the War Between The States, the Spanish-American War, World War I, World War II, the Korean War, and the Vietnam War. Yet all of this together did not create as much government Debt as the current "Conservative" Administration now proposes to run up in just the next *five* years!

And that $790 billion figure is only the most optimistic estimate! No one really believes that Congress will adopt the President's proposed Budgets. The irresistible temptation is to add more spending. And these projections are based on an assumed price-inflation rate of 4.6 percent per year over the next five years, and an estimated average interest rate on 91-day Treasury Bills of 7.3 percent. Can the statisticians at the Office of Management and Budget really believe the assumptions they are feeding to their computer? We seriously doubt it!

Consider what this means. Every one percent increase in the Consumer Price Index triggers an additional $33.4 billion in spending for programs which are indexed to the cost of living over the next five years. This is admitted by the Budgetmakers at O.M.B. If the average annual rate of price inflation over the next half-decade turns out to be, say, fifteen percent instead of 4.6 percent, then the C.O.L.A.s (Cost Of Living Adjustments) will add more than $330 billion to federal spending during that period — taking the Budgeted deficit over the trillion-dollar mark.

Moreover, as the estimators at the Office of Management and Budget also admit, for every one percent that T-Bill rates go up, another $60 billion in interest payments will be added to the federal tab over the next five years. Thus, if T-Bill rates do no more than stay even with inflation, and inflation averages fifteen percent, total federal interest costs will jump by $460 billion between now and 1988.

All of this means that the total depth of red ink from yearly deficits over the next five years could easily be around *two trillion*! That is *double* the official federal Debt that the national government accumulated in the first 193 years of its existence! In other words, we may well more than triple our National Debt in the next five years!

The shocking thing about all of this is that our politicians have refused to consider the tremendously disastrous consequences for our economy. As economic analyst John Pugsley observes, "I am stunned by the fact that the Administration, Congress, and most financial observers either see or pretend to see *no significant detrimental effects* from these deficits. The President's budget figures show a sea of debt, but nowhere in the projections do we see any *effects* of the debt. According to their analysis, inflation, interest rates, and unemployment will all come steadily *down*, even as the most horrendous debt in the history of the nation is being run up. During this miracle, they say, the output of goods and services will be rising at a rate equal to the average growth rate the country enjoyed during the average recovery since World War II."

Of course, it is not really shocking at all. The Ostrich Syndrome is common in politics. If we elect not to recognize the impending disaster, it is believed, maybe it will go away or be blamed on somebody else. Allen's First Law of National Suicide says: *Without education, that which is good economics is bad politics, and that which is good politics is bad economics.*

Grand Theft, Legal

If the Reagan Administration has been conspicuously unsuccessful in curbing the explosion in federal spending, what about its promises to reduce the tax burden? Here, too, the performance has been very disappointing. Ronald Reagan did cut tax rates during his first year. The trouble is that the cuts were more than offset by already-planned increases in Social Security taxes and inflationary "bracket creep." Reagan then raised taxes dramatically in his second and third years. Having played the role of a football quarterback in the movies, Ronald Reagan apparently likes to change goals at half time.

When in January of 1981 Mr. Reagan delivered his Inaugural Address, he boldly declared: "Government is not the solution to our problem; government *is* the problem." And in his first State of the Union speech he defended his tax cut by announcing: "The doubters would have us turn back the clock with tax increases that would offset the personal tax-rate reductions already passed . . . . Raising taxes won't balance the budget. It will encourage more government spending and less private investment . . . . I promised the American people to bring their tax rates down and keep them down — to provide them incentives to rebuild our economy, to save, to invest in America's future. I will stand by my word."

As we know, he didn't. After having pushed through the largest single tax increase in U.S. history ($228

billion over five years), the five-cent-a-gallon gasoline tax ($35 billion for its first year), and even higher Social Security taxes (more than $167 billion over the next seven years), President Reagan delivered a State of the Union message on January 25, 1983, that clearly abandoned even a pretense of Conservative principle in a transparent plea to the radical Democrats for compromise, conciliation, and politics as usual.

This ideological turnabout was consummated last August when Reagan broke his word and actively *fought for new taxes* to narrow the deficit. He joined forces with Tip O'Neill and Teddy Kennedy, suppressed opposition from the Right, and endorsed something even the infamous John Maynard Keynes would have opposed during a recession: the largest single tax package in our history. And along with this tax hike he signed into law new powers for the I.R.S. and legislation to require withholding taxes on interest and dividend income. Although this last provision was later postponed by Congress after a storm of letters and public outcry, we must not forget that Ronald Reagan actively fought repeal.

So what has happened to taxes under Ronald Reagan? According to the Congressional Budget Office, total government revenues will increase $300 billion over the next five years, leaping from $605 billion for 1981 to $923 billion for 1986. Yet despite this huge increase in tax revenues to government, as we have seen, the deficits also continue to soar.

Given the extent to which Members of Congress have insulated themselves from the tax and inflation burdens which they have created for the rest of us, it seems obvious that the crying of Congressmen over the impending megadeficits represents only alligator tears. The great deficit panic is largely a smokescreen behind which to raise taxes while continuing to escalate spending. In May the Congress took only a few seconds to raise the National

Debt ceiling to $1.4 trillion to accommodate even more red ink. This was done anonymously by voice vote. The National Debt has doubled in the last five years, and is now growing at the fantastic pace of a billion dollars every business day!

There is even a move among the spenders to repeal tax-bracket indexing. Enacted as part of the 1981 Tax Reform Act (put in at the behest of the Democrat "Boll Weevils," not the Administration), income-tax indexing is designed to eliminate the effects of inflationary brack creep

President Reagan exceeds Carter in deficit spending.

which forces people into ever-higher tax brackets as inflation pumps up their nominal incomes but real purchasing power remains the same or declines. The indexing plan is not due to go into effect until 1985, yet there are already schemes to abolish it.

While it is not a panacea for our inflation and tax problems, tax indexing is an important move in the right direction and will provide some relief to beleaguered taxpayers while removing an incentive for spineless politicians to increase taxes without having to go on record by voting for them.

For example, if a family of four enjoyed a ten percent increase in its income in 1980 (from $15,000 to $16,500), the purchasing power of its money remained constant because of the diluting effects produced by inflation. However, that additional $1,500 pushed it from the eighteen percent tax bracket to the twenty-one percent bracket. And the value of that family's $4,000 in personal exemptions declined ten percent. Hence, the income-tax bill for this family increased twenty-three percent — from $1,242 to $1,530.

Government thus has a vested interest in inflation. Currently, for every ten percent increase in the Consumer Price Index, taxes go up 16.5 percent. Indexing will compensate for the effects of price inflation. If indexing were repealed, it would be the same as enacting a tax of $100 billion, and the 1985 tax liability of those with incomes under $10,000 would rise by more than nine percent (while the tax liability of those earning over $100,000 would rise by less than two percent). So much for the vaunted "Liberal" concern for the common man.

Crypto-Keynesianism

Moving farther and farther from even the pretense of cutting spending and taxes, President Reagan appears to have embraced the policy of "tax and tax, spend and spend" which he so severely criticized while on the campaign trail. Even some Keynesian economists are recognizing this with delight. In the March 23, 1983, issue of the *Wall Street Journal*, economist Walter Heller of the University of Minnesota gloats that "Mr. Reagan is a Keynesian now." Pointing out the about-face taken by the Reagan team on spending, taxes, and deficits, Heller observes:

"In his fiscal program there is no attempt to cut back the huge 1983 deficit, no attempt to step on the fiscal brakes or stem this year's tide of federal spending in the face of the enormous slack in today's economy. Quite sensibly, his emphasis has shifted from supply-side dogma to boosting demand as a means of reviving the economy. In the messages unveiling his $200 billion-a-year deficits, one finds no word — not even a whisper — about a constitutional amendment for a balanced budget. What does that add up to? In practice, a return to good old Keynesian economics . . . ."

Of course, as we have already observed, the 1982 tax hike, the gasoline tax increase, and leap in Social Security taxes all represent that Reagan turnaround on tax policy. Professor Heller goes on to observe: "But most Keynesian of all Reagan tax increases is the $46 billion standby or contingency tax increase re-

Speaker Tip O'Neill pushes the Reagan spending ever higher.

quested for fiscal 1986 if the deficit remains high — an income-tax surcharge plus an oil tax designed to absorb the excess-demand stimulus threatened by the huge structural deficits looming in the out-years. Not without irony is the picture that emerges of Mr. Reagan, the fiscal fine tuner: tax cuts in 1983-85 to spur the recovery followed by tax boosts for 1986 to curb deficits and inflation."

If anyone should be able to recognize Keynesian policies it is Walter Heller. He was chairman of the Council of Economic Advisors under both Presidents Kennedy and Johnson, and is a longtime Keynes advocate.

Wrong-Way Reagan

So we gave the Gipper the ball and he has run toward the other side's goal line. His goal *was* to cut federal spending — and cut it drastically. This is, and always has been, the only way to win the game. Unfortunately, it has also been made politically unappealing. As we have noted, the recipients of government subsidies are organized into powerful vested interests whose chief concern is perpetuation of the existing system of legalized plunder. Moreover, the philosophy of the Welfare State has for decades been preached to students in the schools and colleges. The view that one has a "right" to what other people have earned is now widely accepted.

A study conducted two years ago by A. Gary Shilling & Company, a New York-based economic consulting firm, revealed that at least 50.2 percent of our nation's population is dependent on salaries, pensions, Welfare aid or other forms of income from some level of government — federal, state, or local. This means that the redistributionists now have a built-in constituency which will tend to perpetuate these claims. Ignoring economic sense, Reagan responds to political "reality."

As Howard Phillips of the Conservative Caucus puts it: The Great Society programs have "created a number of vested interests, and they have arrogated to themselves an aura of moral superiority which, to a large extent, has been unchallenged by Conservatives. The biggest problem Conservatives have in this country is that they're apologetic, they're ashamed. They don't understand first principles, and they don't act on first principles. And unless you're acting on first principles consistently, the other side will get you. Because *they* follow the logic of their position. I saw it during the Nixon Administration; I saw it during the Ford Administration; and I see it during the Reagan Administration. They're *ashamed* of the principles which won them office!

"A perfect example of this occurred several weeks ago. Bud McFarland, who is the Deputy Director of the National Security Council, reporting to Judge William Clark, appeared on the 'Today' show. Under heavy questioning from Judy Woodruff, who apparently couldn't believe what she was hearing, McFarland replied that: Oh no — the Reagan Administration doesn't believe in military superiority! I saw her ask him the same question at least twice. I went back to check the 1980 Republican Platform. There is a clear commitment in that Platform to military superiority — and Bud McFarland was one of the people who *wrote* that Platform!"

Because the Administration lacks the confidence it should have in the principles of the 1980 Republican Platform under which Mr. Reagan ran for and won the Presidency, it is unprepared to act on them. So the Establishment in Washington sees the fear in the Administration's eyes and pushes it to back down on reform. The disappointing thing is not so much that this Administration has not initiated a significant number of changes; it is that this Administration hasn't even tried to initiate them. The Reagan Administration is "conservative" only in the sense that it is conserving the established socialistic order built up over the last half century. This Administration has been constantly on the defensive because its key figures have never believed in the principles for which their standard bearer claimed to stand in 1980.

Pragmatists In Charge

The *Wall Street Journal* reported on March 3, 1983: "Many of the strains are inherent in the White House staff structure that the president himself established. Under the current setup, four senior and roughly equal aides answer directly to him; each has his own staff and is responsible for various aspects of presidential management. Mr. [*James*] Baker handles political, legislative, and communications matters; Mr. [*Edwin*] Meese overseas cabinet activities and administration policy development; Michael Deaver's title of deputy chief of staff belies his important role in budgeting the president's time and guarding his public image; and William Clark handles national security matters.

"In theory, the four operations are largely discrete, with close relations among the four men at the top supposed to ensure harmony and coordination among their respective staffs. The reality, however, is quite a bit different. When responsibilities overlap, as they often do, the staffs can come into conflict. And internal battles sometimes flare into public ones, with anonymous news leaks the weapon of choice."

It is no secret that much of this guerrilla warfare in the White House is between the "pragmatic" staff of James Baker III and longtime Reagan "loyalists" including Edwin Meese and Judge William Clark. As the *Journal* explains the situation: "Many, though by no means all, of the internal conflicts have arisen between Mr. Meese's and Mr. Baker's shops. It isn't any secret, for instance, that a number of Mr. Baker's people think Mr. Meese poorly organized and his people lacking in good political sense. Meese partisans, in turn, suggest that Mr. Baker and his crew are caught up in playing Washington-insider power games at the expense of the president's conservative program."

One of the primary targets of attacks by the Baker "pragmatists"

has been William Clark, President Reagan's National Security Advisor. Columnist M. Stanton Evans, writing in *Human Events* for April 30, 1983, describes the onslaught as follows: "The theme of these attacks is that Clark, a long-time Reagan loyalist, is ignorant, inept, a hopeless ideologue — indeed, an all-around 'disaster.' Stories to this effect have surfaced in *Newsweek*, *Time*, the *Washington Post*, and a report on CBS-TV . . . . Quite clearly, this disparagement of Clark is coming from the White House itself — specifically, from the 'pragmatic' wing of the official family headed up by Chief of Staff James Baker."

While Clark and U.N. Ambassador Jeane Kirkpatrick are the targets of gossip leaked from Baker's team, Baker and his deputy Richard Darman are depicted as brilliant masters of the legislative process and astute political advisors. But according to the Baker-Darman propagandists, Clark is to be blamed for leading the President into a Budget ambush by refusing a timely Baker-sponsored compromise in Congress. This seems a strange charge since it is Baker's team that has the responsibility for congressional relations. Clark is also attacked for giving poor advice to the President on the issue of the Siberian pipeline, for pushing Kenneth Adelman at the Arms Control and Disarmament Agency, and for urging Reagan to be more "confrontational" on Central America.

In contrast to the Baker operatives, Clark is not a power lover and is not prone to in-fighting. His lack of aggressiveness in this matter could spell his doom. Rowland Evans and Robert Novak point out in their syndicated column for May 12, 1983, that Clark's "vulnerability to the West Wingers in Baker's office makes for an unequal contest which a more power-loving person than Clark might seek to rectify through his intimacy with the President . . . . Clark's real weakness stems from the West Wingers' clout with and knowledge of the reporters who cover the White House and their bosses in the newsroom. White House insiders say that Richard Darman, Baker's shrewd chief aide, has become a conduit to one major East Coast newspaper of internal White House secrets comparable to the famed 'Deep Throat' who spilled sensational Watergate revelations to the *Washington Post* 10 years ago. Clark is often the victim, but his own staff lacks a single political gut-fighter capable of playing in the same ballpark with Darman."

The Baker and Darman power-trippers use the news media to try to

Staffer James Baker shuts Reagan's door to Conservative views.

sabotage every Conservative policy initiative within the Reagan Administration, and they work constantly to rid the White House of anyone who does not fit their own mold. Evans and Novak give us a prime example of their work:

"When the president arrived in Houston on April 29, he was greeted with a prominently-displayed article in the *Houston Post* by Morton Kondracke [*of the* New Republic]. Headlined 'Choosing William Clark Over Jim Baker Could Be Disastrous,' the article dredged history to highlight Clark's 'academic failure' as one 'who flunked out of two law schools and failed a bar exam.' It praised Baker and the West Wingers as 'canny, experienced Washington operators who know how to . . . plant a story in the newspapers.' Clark men viewed the article as a flagrant Baker plant in his home town."

M. Stanton Evans poses the inevitable question: "Perhaps the most intriguing question raised by all of this is how the Baker 'pragmatists' have gotten away with it — and how long can they continue to. None of them has any track record of supporting Reagan or Reaganism, and in fact this group did all they could to prevent his nomination. Yet somehow they have managed to worm their way into key positions in the White House, and to use these posts to make continued grief for the President's steadfast supporters.

"It is hard to recall anything like it in the history of our politics — and hard to believe that Ronald Reagan can let it go on much longer. One supposes he must see the endless stream of stories in which loud-mouthed 'White House aides' scoff at his program, cut down his loyal staffers, and sing the praises of Jim Baker. And even if Darman, who controls the information flow, screens out these stories, such as Clark and Meese should be able to get the message through."

Mr. Reagan isn't stupid, is he? Why does he tolerate such disloyalty in the ranks of his staff? Why did he appoint these anti-Reagan "pragmatists" in the first place? It makes you wonder how much freedom of choice President Reagan really has.

One of those anonymous White House officials identified the political point explicitly: "Franklin Roosevelt remained popular because he was a pragmatist willing to try new things. That's the spirit we have to convey here." It is precisely this philosophy which is responsible for the huge levels of spending and Debt being accumulated by the Reagan Administration.

And, make no mistake, deficits do have consequences. The bigger the deficits, the more Treasury Debt securities the Federal Reserve has to "buy" in order to maintain the illusion of prosperity built up by previous injections of inflation. The Treasury securities are used to expand bank reserves and, through the fractional-reserve banking system, the nation's "money supply" is inflated. As a result, interest rates temporarily fall as the new money for loans is made available and business begins to pick up. But this easy-money policy always results in higher price levels down the road, and interest rates rise even higher than before as price inflation begins to accelerate.

A recession or depression then begins to assert itself, wherein the market tries to throw off malinvestments and economic distortions caused by the previous round of inflation. When that point comes, the Fed is always faced with the choice of either more monetary inflation or the politically unpopular (and often suicidal) alternative of recession or depression. New injections of the inflationary dope are needed to keep the economy floating on its false bubble of prosperity.

Thus federal deficit spending results in monetary inflation which, in turn, results in more price inflation — and all the concomitant evils it spawns. Each time in this cycle a point is reached when a new inflation "fix" is resorted to in order to postpone depressionary withdrawal. That point was again reached one year ago, at which time the Federal Reserve abandoned its policy of "monetary restraint" in favor of reflation.

Volckernomics, Not Reaganomics

In October 1979, Paul A. Volcker became the Chairman of the Federal Reserve System. The Consumer Price Index was then exploding at a fifteen percent rate. If Volcker had not put on the brakes, the C.P.I. would soon have been escalating at a rate of twenty-five to thirty percent. He put the economy on a maintenance dose of monetary inflation (the so-called "monetarist" approach). But the economy needed *increasing* levels of monetary expansion to maintain its artificial "high" and keep it from crashing into depression. Consequently, for the past couple of years, our economy has been going through withdrawal pains in a severe recession. The "Liberals" blame it on "Reaganomics." In fact, however, there has been no Reaganomics. It was Volcker's recession, not Reagan's. And it would have occurred no matter who was in the Oval Office.

This "tight-money" policy, which began in 1979 and more or less continued through the middle of 1982, was backed by President Reagan when he came into office. But Mr. Reagan made a severe mistake: He declined to acknowledge and explain that if continued all of this would inevitably lead to a severe depression, the painful withdrawal made necessary by *past inflationary practices*. Instead he promised not only a painless cure for inflation but a prosperity-producing boom. We got the pain without a permanent cure.

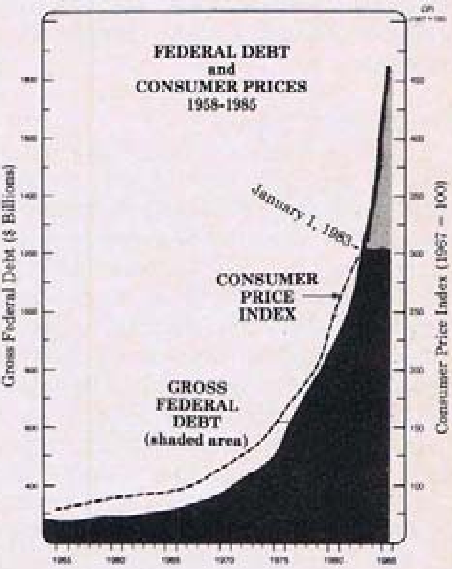
Data released by the Federal Reserve show that beginning last year our central bank began pumping new reserves into the banking system *at the highest rate in its history*. Although the weekly actions of the Fed have been erratic, a look at the total quantity of federal securities bought by the Open Market Committee on a yearly basis shows us what is happening. Chairman Volcker and the Fed have abandoned the attempt to "fight inflation" by a gradualist approach at winding down the rate of money growth. The Fed has been pursuing a policy of reflation in an earnest attempt to stimulate economic recovery.

Meanwhile Mr. Volcker is still talking tough on inflation, but this is just jawboning. The figures show that he is pressing the accelerator. And he dares not do otherwise. Volcker and the other officials at the Fed know that any significant tightening of the money supply at this point would almost certainly produce major debt defaults, both domestically and internationally — threatening to bring down the banking houses and plunging the nation into another, even more severe, recession or depression.

So three consecutive years of relatively restricted purchases of Treasury securities — 1979, 1980, and 1981 — were responsible for the recession we've been suffering. Now the Fed has done more than merely follow a mildly stimulative policy of reflation; it has injected more new reserves into the banking system in Fiscal 1982 than the total amount it put in for 1979, 1980, and 1981 combined! It purchased more Federal securities in 1982 than in any other year in its history.

In the six months following June of last year, M1 (cash in circulation plus checking accounts) grew at an annualized rate of fifteen percent, compared to the Fed's official "monetary target" of 2.5 to 5.5 percent. The growth rate for October alone, when annualized, came to 20.2 percent. By the end of last year, it became clear that the Fed had abandoned its three-year experiment with "monetarism."*

Historically, this level of monetary inflation has led to even greater levels of price inflation within eighteen to twenty-four months. We can thus expect an inflationary business recovery followed by the renewal of double-digit price inflation. There is still so much slack in the economy, however, that the banks and the Federal Reserve can pour enormous sums of new money into the system before prices begin to



rocket again. But the mammoth $200 billion-plus federal deficits we are having this year and next guarantee that monetary and price inflation will return over the next few years with a vengeance.

A chart prepared by market analyst John Pugsley shows the Consumer Price Index (C.P.I.) plotted alongside total federal Debt. For the past three decades, these two trends have been almost parallel. Future inflation is thus a matter of projecting future federal Debt. Adding

*Until 1979 the Federal Reserve's basic policy was geared toward trying to keep interest rates within certain predetermined ranges. From 1979 until the latter part of 1982, the policy was changed to try to keep the money supply within specified — albeit wide — growth ranges. It is this "monetarist" approach which has been forsaken in favor of reflation.

the projected deficits for the next three years to the chart, and extending the C.P.I. curve to match that projection, Pugsley concludes that we can expect the price level to *double* over the next five years! That means an average rate of inflation of approximately fifteen percent per year; but the rate will vary considerably from year to year. We will have a relatively low rate of price inflation for this year — perhaps six percent; but a high level — twenty-five to thirty percent — by 1986. Then the scenario will accelerate upward as hyperinflation and astronomical interest rates ravage the economy.

The Reagan Legacy

It is the fiscal and monetary policies of the past year, which we've been discussing, that will determine the state of our economy one or two years from now. The impact on savers and investors will of course be disastrous. But the political consequences could be even more worrisome. "Conservative" Ronald Reagan will be given the blame for any disaster; and, since his policies have been touted under the banner of "free enterprise," the authentic philosophy of Free Market economics will be smeared indelibly unless massive education takes place in the meantime.

In 1980 the Right set the agenda for debate. The outcome of the election was determined on our issues. By abandoning Conservative principles to pragmatism and compromise, the Reagan Administration has put the whole Conservative movement in peril. When Gerald Ford spoke to Congress on August 12, 1974, his first speech after inheriting the Presidency from Richard Nixon, he said: "I offer you a banner of consensus, compromise, conciliation, and cooperation." Conservatives knew that his Presidency would be a failure. But Ronald Reagan's Administration has also been following that prescription for failure. As Howard Phillips puts it:

"This is not a Conservative Administration. It's a failed Administration which has used Conservative rhetoric to disable and disarm critics from the Right — while making significant and fundamental concessions to the Left.

"The problem was that Ronald Reagan accepted the prevailing perceptions of 'political reality' — he accepted the conventional wisdom. There's only one way that a Conservative President can be a success in this city of Washington, D.C., in the United States of the 1980s — and that's by going to war with the Washington Establishment! Only when the President abandons the policy of *détente* with that Washington Establishment and rallies the American people to defeat that Establishment can he bring about the changes that are needed to put this country back on the right track."

Howard Phillips is, as usual, on target. We dare not wait for Ronald Reagan to rally the people and effect the drastic but necessary changes that are needed. If we do, those changes will never come. We must make Congress our battleground and education our imperative. ■ ■

CRACKER BARREL

■ In Communist China the number of people studying English is greater than the number speaking it in the United States.

■ There are 33,129 ways of making a living without going on Welfare, says the New Mexico Taxpayers Association.