Are We Being Beastly to the Gipper?

di Murray N. Rothbard

Part I

One of the reasons we launched the *Libertarian Forum* way back in 1969 was that a number of "libertarians" had eagerly formed themselves into a (largely unpaid) intellectual bodyguard for the new president, Richard Nixon, and were given to trumpeting the President's allegedly libertarian concerns and designs. Well, we know all too well what happened to *that* theory. But, lo and behold, *plus ca change,* and here we are, one year into the new Reagan Administration, and still more libertarians are now heralding the Gipper as the Libertarian Messiah. If the Gipper is truly our Redeemer, then of course churls such as myself have to be attacked for strenuously resisting the New Dispensation and presuming to claim that the Gip really has no clothes.
Sure enough, the right-wing of our movement, some of whom have quasi-cushy jobs in and around the Administration, have been doing a great deal of such trumpeting and alibiing. Robert Poole, Toni Nathan, David Friedman, David Henderson (now comfortably ensconced in the Labor Department) and Bruce Bartlett (deputy head of the Joint Economic Committee of Congress) have weighed into the lists, defending the poor old Gipper from the alleged calumny of myself and other unreconstructed libertarians, such as CCE's Sheldon Richman. If the others merely Deplore Our Negativism and frankly urge "critical support" for the Reagan Administration, it remains for one Lance Lamberton to take off the gloves and denounce us purists for sniping at the greatest libertarian of our century (Ronnie Reagan, natch), and to resort to psychosmearing to "explain" our churlish resistance to the New Order ("Give the Gipper a Break," *Frontlines,* October 1981). In addition to the usual statist claims that we are negativists and ridden with envy at our Leader's accomplishments, Lamberton asserts that we are all suffering from an "identity crisis" because we insist on clinging to the view that there is something wrong with the State itself. Well, gee whilleckers! Where did we get *that* notion from, I wonder?
Methinks that if anyone is suffering from an "identity crisis" it is Lamberton himself, who persists – or has the *chutzpah* – in calling himself a "libertarian" even while he smears and besmirches the ideas and the movement. At least when Jerome Tuccille deserted the movement a few years ago he frankly called himself a "conservative"; it would be nice if Lance were to follow suit. Nice but not to be expected.
Meanwhile, there is no need to employ psychobabble to explain the new course of Mr. Lamberton. The last time I saw Lance Lamberton he was a pure but impoverished young lad, working at the stronghold of libertarian radicalism, the Laissez Faire Bookstore. Now Lamberton has come up in the world, employed as a lobbyist in the Bowels of the Beast (Washington, D.C.) for the U.S. Chamber of Commerce. Might his 180-degree change of outlook be in some way related to his new-found prosperity as a conservative flack?
We are now one year into the Reagan Administration, so let us now examine the libertarian status of the Reagan record. Have we really been beastly to the Gipper? Or have we scarcely begun to rip open the veil of sanctity that our "libertarian" conservatives have assiduously tried to wrap around the President?
We will start at the Gip's allegedly strongest point – his economic record – since even Lamberton does not muster the temerity to claim that Reagan's foreign, military, and social policies are pristinely libertarian. Let us first tackle the Gip on Reaganomics.

1. Macro Reaganomics: The Budget
We begin with the famous Reagan budget victories in Congress last summer – widely heralded by the Reagan Administration and by the media as "massive" and "historic" budget and tax cuts, cuts

that significantly turned around the decades-long trend toward Bigger and Bigger government in the United States.

Okay, let's look at the "historic budget cut" effected by the Reagan Administration, a cut punctuated almost daily by pathetic TV interviews with various bozos supposedly suffering from the cuts. In fiscal 1980, the last full year of the Carter regime, he of Big Spending and modern liberalism, total federal government spending was $579 billion.

Originally, the Reagan projection of his own spending in the first full year of his regime, fiscal 1982, was $695 billion – thus keeping federal spending below the magic $700 billion mark. This "massive" and "historic" spending cut, dear reader, amounted to a 10% annual *increase* over the budget in the last days of the Bad Old Carter regime. (We can now omit the intervening year, fiscal 1981, as a year of mixed Carter/Reagan; its actual budget was in between, at $661–$665 billion.)

This egregious fraud, this hoax, this "massive cut," this 10.0% annual *increase* in the budget, contrasts vividly to mild old Ike Eisenhower, who no one, including himself, thought of as a conservative or economic libertarian militant. Ike, in his first full fiscal year in office from 1953 to 1954, actually *cut* the budget (cut-cut) by a fairly hefty 8.7%.

But that is scarcely all. For in the space of a few short months, the Reaganite estimates of *its own* spending this year (fiscal 1982) have already risen from $695 billion to $705 billion, and now up to $735 billion! So, with the fiscal year hardly begun (it ends every year on Sept. 30), we now have an estimated *per annum* increase from the last full Carter budget to the first full Reagan budget of no less than 13%! And Lord knows how high the spending will get to when we finally finish the current fiscal year.

So what are these so-called "cuts," and where did this balderdash come from? Because, in Jimmy Carter's January 1981 budget proposals, his suggested 1982 spending was a whopping $739 billion. Hence, in their original enthusiastic estimates, the Reagan $695 billion for 1982 was going to be a 6.0% cut from Carter's *proposed* 1982 budget, not from the actual spending in the last days of Jimmy the Peanut.

But all this is hokum on several different levels. In the first place, a sinister semantic trick is being performed here. In the old days, the days of my youth, a "budget cut" meant precisely that. If this is the year 1954, and if the 1954 budget comes in at less than the previous year, then that is a "cut." Simple and straight-forward enough. But now, the meaning of the term "cut" has been subtly changed. No sophisticated observer expects a cut-cut any more; no one thinks that the budget will actually be *less* next year. What "cut" now means is a reduction from the pie-in-sky blather emitted by a previous President, with no connection to any real budgetary process. Hell, I could do that, too. I could issue "projections" of a $1 trillion budget for this year and then hail Reagan for his "massive cut" of $265 billion from this non-existent hokum figure. No, if we are to keep the meaning of language, a cut must mean a cut *from the previous year.* After all, it's not inconceivable. Moderate old Ike did it in his first two years in office.

And finally, as Reagan spending bloats and balloons upward, projected spending for this year is already almost even with the Carter estimate, and so there is not even a "cut" in *this* sense. There might well be a whopping increase before the year is out.

Perhaps we might salvage the "cut" hoax by saying that Reagan only wants to cut the *rate of growth* of government spending rather than spending itself. But first, that would be a monumental betrayal of Reagan's professed objective of rolling back Big Government. If we have two political parties, a liberal party committed to advancing government, and a conservative party committed only to slowing down the rate of increase, then the inevitable long-run trend will be full-scale collectivism. For when, in that case, are we going to get to roll government back?

But even on these absurdly reduced terms, the Reagan record is an abysmal one. For if we compare the first full year of the Reagan term with the first full year of the Carter regime, we find that the increase *per annum* of the first full year of the Carter budget over the last full year of the Ford budget was 11.7%, a striking contrast to what is *already* projected as a 13.5% annual increase for

Reagan. So, comparing the first years of Reagan with those of Carter, we find an increase in the rate of growth of spending.

David Friedman, David Henderson, and other "libertarian" apologists for Reaganism have protested that such an attack is unfair since inflation can reduce the "real" level of government spending, as corrected for inflation. But while it is perfectly valid to correct yours and my incomes for inflation to see how well off we *really* are, it is impermissible to do this for the federal government, which, by its printing of counterfeit money, is *itself responsible* for the inflation. It is truly bizarre to try to excuse the growth of Reagan spending by pointing to inflation's reducing the "real" level of spending, for in that case, we should hope for an enormous amount of inflation and hail Reagan's spending "reductions" if such hyperinflation came about. To take a deliberately extreme example to highlight the point: Suppose that the Reagan Administration suddenly doubled the money supply, thereby doubling or tripling the price level next year. Should we then hail Reagan for "cutting" "real" government spending by one-half or two-thirds? How grotesque can the Reagan apologists get?

It is true that a tiny handful of obnoxious agencies got cut-cut, and one or two actually got eliminated. But all this amounted to very little, and, as we have seen, was more than offset by massive increases.

Notice what I am *not* saying. I am not, as a well-known radical, denouncing Ronald Reagan for being too moderate, too gradualist, in the right direction of cutting Big Government. If this were 1954, I would have said that about Ike. I am saying something very different: that Ronald Reagan is moving us further ahead, and not very gradually or moderately either, in the direction of Big Government and collectivism. He is not moving gradually in the right direction, but at a smart clip in the wrong direction. He has not turned the country around, except in the mistaken notions and fantasies of the media, of deluded rank-and-file conservatives, and of our right-wing libertarians. Only his rhetoric, not his actions, can be called libertarian in any sense. In an age of hype, Reagan's public-relations success was – very temporarily – astounding. But, as we shall see in the case of the deficit, the chickens are already coming home to roost.

2. Macro Reaganomics: The Deficit

The deficit turned out to be the Achilles heel of Reaganomics. Reagan, during his campaign and in the early weeks of his Presidency, pledged a balanced budget. No more Bad Old Keynesianism, but fiscal sobriety. In his budget estimates during 1981, Reagan persistently forecast a $43 billion deficit this year, and finally, a balanced budget in 1984. Then suddenly, in the fall of 1981, the President threw in the towel, and abandoned his solemn pledge. The balanced budget is *kaput* even in promise, and has gone the way of the Carter "balanced budget" of 1976. And suddenly, Administration forecasts of its own 1982 deficit have zoomed alarmingly, already hitting the enormous total of $109 billion.

And so, to add to the biggest budget in American history, President Reagan proposes to give us the biggest deficit in our history.

The great Reagan macro-hoax, the non-existent budget and tax "cuts" (on taxes, see part II), emerged from a game plan: the phony cuts would give heart to the market, and inflationary expectations would reverse sharply, bringing down interest rates from their historic highs. The interest drop and reversal of inflationary expectations, went the theory, would give a "breathing space" for the monetarists at the Treasury and the Fed to do their work: i.e., very, very gradually reduce the rate of counterfeiting, so as to lower inflation in slow, painless degrees. Pain, and a severe recession, would thereby be avoided, and we could, for the first time gradually end inflation with no severe corrections, dislocations, or recessions.

Well, it was too late for all that. Inflationary expectations are ingrained in the American psyche. No one trusts the government anymore. No one trusts the Fed. And so, sensing the hoax, and seeing the deficit rise rather than fall, Wall Street's inflationary expectations – and therefore interest rates – remained at their embarrassing highs. The confident prediction of the Friedmanite monetarists in charge of Reaganomics: that interest rates would fall swiftly because inflation had "abated," was knocked by reality into a cocked hat.

The first, shameful and panicky reaction by the Administration was to start hectoring Wall Street. Senator Baker and Representative Michel – the Republican leaders in Congress – yelled at Wall Street and, like King Canute, ordered bond prices to rise. If they didn't, the Congressional leaders threatened Wall Street with dire consequences: credit controls, extra taxes on interest, even wage-price controls. None of this received any denial or repudiation by the Administration. Indeed, Secretary of the Treasury Regan added his own hectoring, chastising Wall Street for not having enough faith in America (thereby taking his own old Merrill Lynch TV commercials seriously).

In the last months of 1981, interest rates finally fell, though not spectacularly, but Reaganites took little comfort, since the cause was not the disappearance of inflation but a severe recession that hit in the fall. With unemployment rising sharply, production falling, and inflation still at near double-digit levels, the ever-zooming deficit has left the Reaganites panicky, on the ropes, reduced to praying, like Mr. Micawber, that "something will turn up."

Perhaps the most shameful Reaganite reaction to the accelerating deficit came from the Administration's three top economists, members of the Council of Economic Advisers, Weidenbaum, Jordan, and Niskanen, all of whom have been advising us that deficits are really not so bad, and that therefore We Should Relax and Enjoy It. Surely the ghost of Lord Keynes is smiling now! The single most disgraceful message that We Should Learn to Love Deficits came from my old friend, "libertarian" Bill Niskanen. Niskanen opined (a) that, after all, the "real" public debt – oops, there we go again! – is declining, and (b) that government assets are growing too, so that an accelerating increase in the debt is not that bad.

The point of the "real" public debt gambit is that, as the government prints more money and creates inflation, the value of its public debt in real terms goes down. No doubt, but this is hardly something to cheer about. When the German government created runaway inflation in the early 1920s, one of its reasons was to wipe out its public (especially its foreign) debt. It succeeded all too well. Are we supposed to cheer, Bill, because the government suckers its citizens into buying its debt and then creates inflation to wipe out its "real" debt burden?

The second shameful argument of Niskanen's is that government "assets" too, are growing. As the *New York Times* paraphrased him, "If the borrowed money were invested constructively – not just spent for immediate consumption – the deficit financing might be laudatory." Infamy! Government "investments" are "laudatory?" Since when is government spending anything but unproductive and parasitic "consumption" expenditures by politicians, bureaucrats, and their confederates? Here we see the *reductio ad absurdum* of our "free market" public choice economists (of whom Bill Niskanen is a distinguished member) who treat government as if it were just another – albeit largely inefficient – business firm, making investments, piling up assets, weighing asset and debt, etc. No, the government is not just another business firm; it is not a business firm at all. It is our enemy; it is Leviathan. As the *Wall Street Journal* mildly noted in response to Niskanen, some conservative economists "weren't happy with the picture of a steadily growing government, preferring to see government shrink." How old-fashioned of them!

Niskanen is relatively far-out in his service to the State. Other, less repellent, Reaganite arguments on Why We Should Learn to Love Deficits are those of the dominant monetarists, and the fringy but scrappy and voluble supply-siders or Lafferites. To the monetarists, deficits are not inflationary unless they are financed by new money created by the Fed, and since the monetarists propose to order the Fed not to do so, then there is no problem. But, while this is technically true, no one who knows anything about politics or the way the Fed works believes that it will refrain from "monetizing" $109 billion and even higher deficits. Of course much of the deficits will be financed by new money. Already, Secretary Regan has been exhorting the Fed to create more and more money. So, in practice huge deficits *will* be inflationary; Wall Street's apprehensions are right and the arrogantly confident monetarists are wrong.

But furthermore, even deficits not at all monetized will have a baleful effect. For they will mean that precious and scarce private savings will be siphoned off into unproductive government boondoggles. Growth rates, already alarmingly low, will sink further because government spending will "crowd out" private investment from the capital markets. Interest rates will therefore be driven upward. But the major problem is not the rise in interest, but the crippling effect on private investment, productivity, and economic growth. Deficits *Do* Matter!

The other set of Reaganite deficit-apologists are the Supply-Siders. First, they don't care about deficits, for they want only tax cuts, and they *favor* keeping spending levels high. The supply-siders are interventionists and not free-market advocates; they simply want different kinds of intervention. But they agree with liberals and Keynesians that spending levels should be kept high, largely because that is what they think the public wants. Professor Arthur Laffer, in his extreme Laffer Curve variant of supply-side, claims that cuts in tax rates, particularly income-taxes, will almost instantaneously raise tax *revenue* so much (because of increased work, thrift, and production), that this will achieve a balanced budget painlessly. Like the monetarists, the Lafferites demagogically promise painless economic adjustment; spending levels (and therefore all the goodies from Papa Government) can be kept up; tax rates can be sharply cut; and *yet* we can achieve a balanced budget through a rise in revenues.

But the vaunted "massive" income tax cut has already led, not to a balanced budget, but to unprecedented and enormous deficits. And so Lafferism has been politically discredited – actually unfairly since, as we shall see later, taxes were not really "cut" at all. A crackpot theory has been unfairly discredited, but eventual discredit was inevitable. It was just a matter of time.

The Reagan Administration, however, *has* done something about the deficit problem. It has aggravated deficits, but it has managed to get the conservative Republicans in Congress off an embarrassing hook. In the good old days, we had a statutory debt limit, and every year or so the Administration would come to Congress and induce it to up the limit. One of President Reagan's first acts was to come to Congress and ask it to raise the debt limit once again, to over $1 trillion. Veteran conservative Republican Congressmen, who had voted against rises in the debt limit all their lives, changed their stance with tears in their eyes. They justified their change of stance because *now* a good conservative was in the White House, and they all trusted Reagan to fulfill his balanced budget pledge. Well, that pledge is now out the window. But the conservative Republicans in Congress don't have to worry any more. They are off the hook. For, unbeknownst to practically everyone, the Administration managed to change budget procedures last summer so that the debt limit never again will have to be raised officially. The debt "limit" now automatically increases whenever Congress votes a deficit. Some "limit"!

The Reagan Administration of course benefits from this bit of deception. The conservative Republicans are no longer embarrassed in front of their constituents. Only the American people are the losers.

Part II

3. Macro/Reaganomics: Taxes

If Deficits Do Matter, this does not in any sense mean that they should be rectified by tax increases. Taxes should never be raised under any circumstances. They should always be cut, anywhere and everywhere. Why? First and foremost, because taxation is theft, and the more people are allowed to keep their own money the better. Second, because a price, no matter how high, is always better than a tax. Consumers paying high prices, no matter how distraught by inflation, are at least getting *some* goods and services for their inflated money. But the taxpayer gets nothing from his coerced payment except grief and the buildup of an oppressive State Leviathan. Taxes are never justifiable. And third, strategically, as Milton Friedman often points out, the only way the government can be forced to reduce its spending is by cutting off its water and lowering taxes.

Deficits, therefore, should be eliminated by drastic slashes of government spending. But where and how? The answer: anywhere and everywhere. There is no mystery about it. Just slash with a hefty meat axe. Go down, for example, the Eisenhower budget and reduce every item back to it. Or better yet, the Roosevelt budget of the 1930s. Still better, the Grover Cleveland budget. *Still* better yet, return to the average annual budget of the Federalist period of the 1790s: $5.8 million dollars. If that was good enough for the statist Alexander Hamilton, it should be good enough for our "libertarian" Reagan Administration.

Of course, my most preferred position is that the United States budget go back, or rather go forward, to a nice round Zero. But, to demonstrate my devotion to moderation, I could live with a transitional level of $5.8 million for a year or two.

At any rate, none of this needs a young blow-dried Whiz Kid with a magical facility with "the numbers." All we'd need to effect this program is a genuine devotion to liberty and a modicum of guts.

Getting down to cases, shouldn't we be hailing, at least as a first giant step down the road to a taxless society, the "massive" and "historic" Kemp-Roth income tax cut we are all now enjoying, plus the other cuts in business and capital gains taxes? The answer is: We should if there were such a thing, but the problem is that there *is no* income tax cut. The "tax cut," like the non-existent "budget cut," is a gigantic hoax.

Forget that the original 30% cut in three years was postponed, and reduced to 25%. The important point is that the income tax "cut" for 1982, which is supposed to spur work, thrift, and investment, is not a cut but an *increase*. Projected tax revenue for 1982 is about $50 billion *higher* than 1981, reflecting not Lafferite voodoo but an *increase* in income tax rates far offsetting the puny but extravagantly publicized "cuts." For two massive increases in rates every year consist in (a) a programmed increase in Social Security tax rates; and (b) "bracket creep." Social Security is an admitted sacred cow of the Reagan Administration, even though all sides admit that the Social Security program is bankrupt, and will have to be drastically amended in years to come. But tax rates for this fraudulent program (undoubtedly the biggest single racket imposed by the New Deal) continue to rise every year.

''Bracket creep" is the sinister process by which the federal government gives a devastating one-two punch to the average American. The first punch is the Federal Reserve printing more money every year, thereby driving up prices and extracting more resources from the private and productive sector. The second punch comes as Fed-created inflation raises prices and incomes across-the-board. For as it does so, the average person is wafted up into a higher tax bracket, and has to pay a higher percentage of his income in taxes.

Thus, suppose that a number of years ago, the average American was earning $10,000, and that now he is earning $20,000 but that prices have more or less doubled since then. In "real" terms, he is no better off, since the purchasing power of his income is the same as before. Everyone now understands this sad fact. But what is still not fully recognized is that he is now in a higher tax bracket, and will be socked a considerably higher percentage of his income in taxes. He is *worse off* than he was before.

It is estimated, then, even by the Administration, that the average person will be paying considerably higher income taxes in 1982 than he did last year. Misled by Administration and media hype about alluring tax "cuts," he will deservedly be bellowing with rage at the government when he finds out that his tax bill is going to rise not fall.

But this is not all. For the *increased* taxes will fall exclusively on the poor and the middle class, while the wealthy will enjoy a hefty tax cut. Why? Because (a) the Social Security tax is a *regressive* tax, so that the wealthy pay a lower proportion of their income to Social Security than the poor or middle class. And (b) because bracket creep of course cannot affect the *highest* bracket, since that bracket cannot rise with inflation. When we also consider that the Reagan tax package lowered the top-bracket income tax on dividends and interest as well as on wages from 70 to 50 percent, and also liberalized depreciation requirements and cut the capital gains tax, we see that the wealthy and business received substantial tax goodies, while the rest of the population has been squeezed further. Not only is this unjust, it is clearly political suicide for the Reagan Administration.

Now don't get me wrong: I'm all in favor of drastic tax cuts for business and the wealthy, the more the better. But it is both unjust and politically moronic to couple that with tax *increases* for everyone else. The only way to get the public to agree to tax cuts for the wealthy is to give *them* hefty tax cuts as well. In this way, there would be sizable tax-cut goodies for everyone, and we could build a coalition for freedom, a coalition based on morality as well as self-interest for all the coalescing groups. Thus, we could "buy" votes for freedom instead of for statism. But if, instead, the average American is socked still further, the result can only be political disaster.

In an illuminating article in the *Business Review* of the Federal Reserve Bank of Philadelphia, Stephen A. Meyer and Robert J. Rossana estimate the tax impact of the Reagan program on various income groups, conservatively assuming an 8% inflation rate this year. On this assumption, they demonstrate that marginal income tax rates at the $13,000 level (in 1978 dollars) remain about where they were – about 24%, while households' with incomes from $13,000 to $40,000 (the broad middle class) will suffer rising marginal tax rates. Thus, families earning $22,500 who do not itemize deductions will suffer a rise in marginal tax rates from 24% to 35% in 1983. Those who itemize deductions will suffer a jump in the marginal tax rate from 32% to 40%. Families who take the standard deduction earning $40,000 will find marginal taxes rising from 39% to 49%, while those who itemize will remain the same at about 43%. However, very high-income families will enjoy a substantial drop in their marginal tax rates.

The only really important tax cut in the Reagan tax package passed in 1981 was forced upon the Administration by the Southern Democrats (the "boll weevils") in Congress. That was to index income taxes for inflation so as to eliminate bracket creep. Unfortunately, however, indexing is only slated to begin in 1985, based on 1984 income and tax levels, and hence so far off it is just pie-in-the-sky promised for the future. The way things are going, I would not bet my life savings that the indexing provision will still be there when 1985 rolls around.

The media, led by supply-siders Evans & Novak, are now filled with the saga of the heroic President Reagan manfully resisting the urgings of all his top advisers to raise taxes. "I will seek no tax increases this year," proclaimed the President in his 1982 State of the Union message on January 26. But the President lied. He *is* seeking tax increases, to the tune of $32 billion over the next two years, and his tax raises are more pernicious than mere figures indicate. It. is true that the President decided *not* to follow the full Thatcher route immediately, as his advisers urged, and therefore not to recommend the doubling of excise taxes on liquor and tobacco, or an increased 4 cents a gallon tax on gasoline. Neither has he succumbed to Senator Baker's monstrous proposal for a national sales tax.

Reagan tries to cover up his lie by semantic trickery, calling his proposed tax increase "revenue enhancement," and merely "closing loopholes." Under this camouflage, Reagan has decided to recommend: acceleration of business and corporate tax payments, cutting back tax exemptions on industrial development bonds, and the elimination of energy tax credits for businesses. Moreover, the President proposes substantial increases in the minimum tax paid by corporations, and he urges delay of corporate write-offs of interest and taxes incurred for construction of commercial buildings. All these tax increases will cripple business recovery and economic growth. Already, furthermore, the excise tax on coal has been doubled at the behest of the Administration.

The pernicious concept of "closing loopholes" echoes the old liberal notion that any amount of one's earnings that the government graciously allows one to keep is a "loophole" which deserves to be "closed" by Uncle Sam. Ludwig von Mises pointed this out decades ago, and one would expect the President, who claims to be a devoted student of Mises' writings, to be aware of this fact. (See A. Director, ed., *Defense, Controls, and Inflation,* University of Chicago Press, 1952, pp. 151–152).

Another noxious device of the 1982 Reagan budget is to raise taxes but to call them "user fees." In some cases they are simply taxes outright. Others might not be *called* taxes, but they have the same

effect of shifting money from private producers to the State apparatus, raising charges for services monopolized by the government. Thus, while the Administration abstained from an increased gasoline tax, it proposes a savage multi-level assault on an airline industry in deep recession by (a) increasing the federal tax on airline tickets from 5% to 8%; (b) *tripling* the four-cent-a gallon tax on general aviation gasoline, then raising it by another two cents a year for four more years; (c) imposing a new 5% freight waybill tax; and (d) a new $3 international departure tax.
In addition, navigation and boat and yacht fees are supposed to raise an additional revenue of almost $2 billion in the next two years. Nuclear waste fees are to be imposed on electric utilities, to the tune of $800 million in two years. Passport fees on the public are to be doubled, and immigrant visa fees to be quadrupled; this is supposed to raise $100 million a year. Fees are to be levied for various mediation and arbitration "services" provided in labor disputes by federal mediation agencies. And worst of all, the commodity futures market is to be forced to pay a user fee of 25 cents per contract to pay for its own regulation by the government.
But the most malignant aspect of Reagan's revised "non-increase" tax package for 1982 is his idea that the federal government launch a withholding tax of *5%* on interest and dividends. This evil notion was suggested by President Carter, but was fortunately defeated by the lobbying of the elderly, who get a large proportion of their income from capital and endowment income.
Officially, of course, the withholding tax involves no tax increase, but everyone knows, in fact, that the monstrous withholding provision (put in during World War II as a "wartime emergency" measure, the details of which were worked out by Milton Friedman, then in the Treasury Department) is the key to the success of the income tax plunder. In practice, the withholding tax on interest and dividends will not only be costly in terms of red tape, but will also cripple savings by greatly increasing the tax burden on savers. What price supply-side now?
Monstrous as this is, it should not be a surprise to anyone, for it was the self-same "libertarian" Gipper who, as governor of California, imposed the withholding system for the state income tax.
If Reagan had any libertarian instincts, the very *least* he could do about the income tax would be to weaken the IRS, by drastically lowering its budget and its personnel. But what is our Gipper doing? Quite the contrary: he is proposing adding 5,000 employees to the IRS bureaucracy so that more taxes can be collected. This is not only raising taxes, it is doing so with a vengeance.
It is, finally, characteristic of this Administration that the only hope for its proposing decontrol of natural gas prices is if it can be coupled with a whopping "windfall profits" tax (in fact, a graduated excise tax at the wellhead) on natural gas.

Part III

4. Macro-Reaganomics: Money

Now that the American people are inured to expect inflation, there is only one way to stop our chronic and accelerating inflation: by stopping, immediately, sharply, and once-and-for-all, the Federal Reserve's continual creation of new money, that is, to stop its counterfeiting. It has to be done sharply and swiftly to be credible, and therefore to end the inflationary process. Furthermore, a sharp, swift "slamming on of the brakes" would lead to a sharp but short recession which would liquidate the unsound investments of the preceding inflationary boom and pave the way for rapid and sound recovery.
Reagan had the opportunity to perform this quick surgery when he came into office. Instead, he turned his economic policies over to the Friedmanite monetarists. Reaganomics is largely monetarism. The monetarist view is that the Fed must only very, very slowly reduce the rate of counterfeiting, and thereby insure a gradual, painless recession with no unemployment or sharp readjustments. The hoax of Reaganomics was that the phony "budget cuts" and "tax cuts" were supposed to provide the razzle-dazzle to give gradualist Friedmanism the time, or the "breathing space," to work its magic.

Instead, gradualism has led to the present shambles of Reaganomics. The rate of counterfeiting declined, enough to bring about our current recession, but *not nearly enough* to end inflation. Since November, in fact, the Fed, stung by the deep recession and by political urgings to expand the money supply, has increased M1 by a startlingly high annual rate of 13.7%. Panicky, the Administration is fighting amongst itself. Secretary Regan blames the Fed for looming re-inflation and higher interest rates since November; Fed Chairman Volcker lashes back by blaming Reagan and Regan's enormous deficits for the fear of Wall Street and higher interest. Both, of course, are right.

There were two fundamental reforms the Reagan Administration could have proposed to end our Age of Inflation. First, either the abolition or the brutal checking of the Fed. Nothing was done, since monetarism wishes to give all power to the Fed and then naïvely urges the Fed to use that power wisely and with self-restraint. Second, the Administration could have followed Reagan's campaign pledge and reinstituted the gold standard. But the Friedmanite monetarists hate gold with a purple passion and wish all power to government fiat money.

When the Reagan program lay in shambles by the end of 1981, the Reagan Administration briefly flirted with the supply-side notion of instituting some form of phony gold standard, where the dollar would not really be convertible into gold but would cloak its decaying corpus in gold's well-earned prestige. For a while, it looked as if a phony gold standard would be the Reaganite diversion from the realities of grinding recession, zero economic growth, high interest rates, almost double-digit inflation, and huge $100 billion deficits. But this was not to be, and Reagan has clearly given the green light to the packed Friedmanite majority and staff on the U.S. Gold Commission to reject the gold standard out of hand and to continue the monetary *status quo.*

Instead, Ronald Reagan has found another diversionary tactic, another razzle-dazzle hoax with which to bemuse the media and the electorate: the "New Federalism" (see Part IV of this article).

Not only the gold standard, but all fundamental reform has been rebuffed by the Reagan Administration. The National Taxpayers Union's balanced budget amendment – as namby-pamby as it is – has been spurned by the Reagan Administration, as has the Friedmanite Tax Limitation Amendment, even though that would only freeze the *status quo.*

All of this raises the dread spectre of Thatcherism, of going down the disastrous route blazed by Mrs. Thatcher. More and more it looks as if the Reagan Administration, despite the warning signals sent up by the Thatcher experiment for the past several years, is going down the Thatcher trail. That is, to ignominy and disastrous defeat, and more important, to the discrediting of the free-market, hard-money cause by employing its rhetoric while thoroughly betraying it in practice.

5. Macro/Reaganomics: The Spectre of Mrs. Thatcher

Mrs. Margaret Thatcher came in roaring to the Prime Ministry of Great Britain in May 1979 with the promise of free markets, denationalization, and an end to deficits and monetary inflation. The denationalization has been virtually nil. Deficits continue very heavy; money and price inflation continue at double-digit levels. The only result of Thatcherism has been to stifle economic growth and to bring about a seemingly permanent recession with very high unemployment. In short, Thatcherism has brought about the worst of all macro-economic worlds. Inflation continues high and rampant, along with very high unemployment levels and chronic stagnation. Moreover, the slight fall in income tax rates was immediately more-than compensated by an even greater increase in the VAT (essentially sales) tax. In this way, slight gains for upper income groups were more than offset by increased burdens on the poor and the middle class. If leftists were asked to describe a right-wing Bogey Man, they couldn't have done better, and with more disastrous results for the cause of economic freedom.

Why such disastrous results from an allegedly free-market regime? Because the Thatcherites are "Burkeans" rather than "right-wing Leninists," and are therefore committed to the glories of gradualism and moderation rather than to a hard-nosed radical and abolitionist approach to the achievement of economic freedom. But it is too late for gradualism. Gradually tight money succeeded in bringing about a chronic recession, but it was not tight enough to end inflation or turn the economy around. Hence, the worst of both worlds, and the economic collapse.

Part IV

6. Macro/Reaganomics: Lies, Damned Lies and Statistics

But there is hope, of a peculiar sort, for the hard-pressed American people. If the Reaganauts cannot relieve inflation or unemployment, they may moderate these twin evils by sleight-of-hand: by doctoring the statistics which everyone has been following avidly. Despite the pretensions of "scientific" economic forecasters, the seemingly precise quantitative data spewed forth by the various statistics factories are highly imperfect indicators of what is going on in the economy. There are no even approximately "scientific" measurements of inflation or unemployment, and there is no way of arriving at such measurements. Every person experiences his own "inflation rate," depending on what he customarily buys. I, for example, buy a great number of books every year, whereas the paradigmatic blue-collar Dayton, Ohio housewife with 2.2 kids buys no books at all. Yet, book prices have been skyrocketing upward at an alarming rate in the last few years, though none of this has been reflected in the orthodox Consumer Price Index (CPI).

There is, then, no "scientific" or unflawed measurement of the movement of consumer prices. The only excuse for any such index is that it be consistent, that is, whatever its flaws, it be consistent over the years so that movements in the index can have a substantial degree of coherent meaning. To change the nature of such indices is to deceive, for it is to abandon consistency and to doctor the data for political effect.

If the Reaganites cannot bring down inflation, however, they have decided that they can bring down the index by redefinition. This, of course is equivalent to bringing down a patient's fever by repainting the numbers on the thermometer. The Reaganites have decided that rises in housing costs have been embarrassing them, so the Bureau of Labor Statistics, which issues the CPI, has been ordered to change the basis for its measurements: From now on, instead of housing prices, all housing will be costed as if it were rented. The reasoning is that one buys a house as a durable good, but during each year one only lives in an amortized yearly quota; hence, a purchased house will be treated in the index as if it were rented.

The reasoning sounds plausible, but is as phony as a three-dollar bill. For why stop at housing? Why not similarly "imputed rents" for all consumer durables: speedboats, hi-fi sets, furniture, even clothing – none of which is used up during one year? The main point is that there are good arguments either way, but the overriding consideration is to remain consistent so as to enable meaningful comparisons over time. Reaganite doctoring of the CPI – which will begin in early 1983 – may help to fool the public into thinking that inflation is getting better, and may also reduce the upward indexing of numerous contracted wage rates.

The latest scheme of the mendacious Reaganite statisticians is to doctor the embarrassing unemployment data. Once again, there are good reasons both for increasing the number of unemployed (disheartened who have given up seeking work) or reducing them (those only recently off the employment rolls or who are not really seeking work). But the vital thing is to keep the measures consistent over time, and not to doctor the data by changing the measurements. But the unemployment figures have been embarrassing for many years, and are getting worse. After World War II, the blissful state of "full employment" was defined as unemployment of 3–4% of the labor force. But since we haven't seen hide nor hair of such a figure for decades – it's been hovering around 7% – "full employment" has now been redefined as 5–6%. But apparently that's still not enough, and the Reaganites are moving toward still further mendacity.

Specifically, Secretary of Labor Raymond Donovan has now proposed to stop including in the unemployment figures all teenage workers still in high school. Since teenage unemployment has been far higher than adult – largely because of minimum wage laws – what better and more painless way to reduce overall unemployment than by tossing teenagers out of the statistics?

And, indeed, why stop there? Why not drop out all teenagers whatever, indeed everyone below 25, where unemployment is the highest? And also drop out women workers, since their unemployment rates are also high? And blacks too? And urban areas of the Northeast, and of New England?

Lies, damned lies, and statistics. Why stop there, Reaganauts? Why not include in the CPI *only* computers and hand calculators? Then, precise statistical data could "prove" that prices have been *going down* rapidly. And why not include in the labor force only adult white males in the Sun Belt? Then we could "prove" that there is virtually no unemployment in today's America.

The Reagan Administration might be a macro-economic disaster, but it has brought us "creative" language ("revenue enhancement") and "creative" statistics. Mendacity, mendacity. For shame, "free market" Reaganites! As Swift once put it, "I never wonder to see men wicked, but I often wonder to see them not ashamed."

Part V

7. Macro-Reaganomics: the Latest

Since we have begun this series, the Reagan record has become so putrid that even the right-wing of our movement has fallen into a conspicuous silence about their erstwhile Hero. Our assaults on the Reagan performance have lately been pushing on an open door.

Inflation has dramatically "abated," but interest rates remain very high, clearly because the public and the market understandably distrust the enormous and unprecedented deficits and the fact that the Fed has been quietly pouring in more money since last October at the whopping annual rate of 10 per cent. All this means an imminent reflation, high interest rates, and a big increase in both once a boom reappears.

For the last several months, the Reagan Administration has been desperately attempting to deflect the attention of the public from its rotten record. In addition to scapegoating the Democrats and the Carter Administration, the Reaganites have thrown up a series of razzle-dazzle gimmicks to try to gull the voters.

First, trotted out in last-minute desperation at the 1982 State-of-the-Union message, was the New Federalism (remember that one?). Even the original version was so vague and so pie-in-the-sky (taking a decade to go into effect), that it was difficult to take it seriously or to figure out whether federal spending or each state's spending, would go up or down as a result. But, in offering to assume all state Medicaid costs for the federal government in exchange for shifting welfare and food stamp costs to the states, it was at once clear that Reagan was offering to shoulder the fastest-growing expenditure of the three (Medicaid) by the federal government, so that the feds would probably wind up spending more money than ever before. In addition, Robert Carleson, White House aid in charge of welfare, was reportedly unhappy because the proposed swap would be setting the stage for national health insurance from the next administration.

Now, the Reagan Administration has caved in even more, since it is now offering to keep food stamps for the feds, and only shift welfare to the states. More and more, the New Federalism is looking like the same old galloping statism under the cloak of Reaganite rhetoric.

When the New Federalism failed to fly, the next gimmick adopted by Reagan was the balanced budget amendment, which has been kicking around for a long while, and has now been introduced in the Congress. The President must get high marks for unmitigated gall; here he is, presiding over by far the biggest budget and the biggest deficit in American history, and still attempting to curry favor with opponents of Big Government by self-righteously urging a constitutional amendment for a balanced budget! How can Reagan keep getting away with his favorite ploy of being Head of State and yet *still* sounding like a private citizen reading oppositional anecdotes attacking Big Government from his eternal 3x5 cards?

Furthermore, the main balanced budget amendment before Congress is so namby-pamby and so attenuated that it would probably be better if it were defeated right now. First, Congress is not required to balance the actual budget, but only its estimates of future budgets, estimates which are notoriously vague and chronically inaccurate. Second, there is no enforcement procedure to bring Congress to heel. Deficits are right now against the law, though not yet unconstitutional, and yet no one pays any attention to the continuing violation, let alone proceed to incarcerate some erring Congressmen. Third, it is absurdly easy for Congress to override this solemn amendment, ranging from a mere majority to a three-fifths vote. Even easier than overriding the constantly abused statutory limit on taxes would tie tax revenues to a percentage of the "national income." It is truly absurd to enshrine a slippery concept such as "national income" in to the basic law of the land. Who knows what "national income" is? This is not a precise or scientific concept, but whatever government statisticians say it is. For example, every time the government hires a bureaucrat, the salary is counted as a *per se* addition to the "national income." The saints preserve us from Friedmanites (for such they are) adding their mumbo-jumbo to an already much-abused Constitution!