The Myths of Reaganomics

di Murray N. Rothbard

I come to bury Reaganomics, not to praise it.

How well has Reaganomics achieved its own goals? Perhaps the best way of discovering those goals is to recall the heady days of Ronald Reagan's first campaign for the presidency, especially before his triumph at the Republican National Convention in 1980. In general terms, Reagan pledged to return, or advance, to a free market and to "get government off our backs."

Specifically, Reagan called for a massive cut in government spending, an even more drastic cut in taxation (particularly the income tax), a balanced budget by 1984 (that wild-spender, Jimmy Carter you see, had raised the budget deficit to $74 billion a year, and this had to be eliminated), and a return to the gold standard, where money is supplied by the market rather than by government. In addition to a call for free markets domestically, Reagan affirmed his deep commitment to freedom of international trade. Not only did the upper echelons of the administration sport Adam Smith ties, in honor of that moderate free-trader, but Reagan himself affirmed the depth of the influence upon him of the mid-19th century laissez-faire economist, Frederic Bastiat, whose devastating and satiric attacks on protectionism have been anthologized in economics readings ever since.

The gold standard was the easiest pledge to dispose of. President Reagan appointed an allegedly impartial gold commission to study the problem—a commission overwhelmingly packed with lifelong opponents of gold. The commission presented its predictable report, and gold was quickly interred.

Let's run down the other important areas:

Government Spending. How well did Reagan succeed in cutting government spending, surely a critical ingredient in any plan to reduce the role of government in everyone's life? In 1980, the last year of free-spending Jimmy Carter the federal government spent $591 billion. In 1986, the last recorded year of the Reagan administration, the federal government spent $990 billion, an increase of 68%. Whatever this is, it is emphatically *not* reducing government expenditures.

Sophisticated economists say that these absolute numbers are an unfair comparison, that we should compare federal spending in these two years as percentage of gross national product. But this strikes me as unfair in the opposite direction, because the greater the amount of inflation generated by the federal government, the higher will be the GNP. We might then be complimenting the government on a lower percentage of spending achieved by the government's generating inflation by creating more money. But even taking these percentages of GNP figures, we get federal spending as percent of GNP in 1980 as 21.6%, and after six years of Reagan, 24.3%. A better comparison would be percentage of federal spending to net private product, that is, production of the private sector. That percentage was 31.1% in 1980, and a shocking 34.3% in 1986. So even using percentages, the Reagan administration has brought us a substantial increase in government spending.

Also, the excuse cannot be used that Congress massively increased Reagan's budget proposals. On the contrary, there was never much difference between Reagan's and Congress's budgets, and despite propaganda to the contrary, Reagan never proposed a cut in the total budget.

Deficits. The next, and admittedly the most embarrassing, failure of Reaganomic goals is the deficit. Jimmy Carter habitually ran deficits of $40-50 billion and, by the end, up to $74 billion; but by 1984, when Reagan had promised to achieve a balanced budget, the deficit had settled down comfortably to about $200 billion, a level that seems to be permanent, despite desperate attempts to cook the figures in one-shot reductions.

This is by far the largest budget deficit in American history. It is true that the $50 billion deficits in World War II were a much higher percentage of the GNP; but the point is that that was a temporary, one-shot situation, the product of war finance. But the war was over in a few years; and the current federal deficits now seem to be a recent, but still permanent part of the American heritage.

One of the most curious, and least edifying, sights in the Reagan era was to see the Reaganites completely change their tune of a lifetime. At the very beginning of the Reagan administration, the conservative Republicans in the House of Representatives, convinced that deficits would disappear immediately, received a terrific shock when they were asked by the Reagan administration to vote for the usual annual increase in the statutory debt limit. These Republicans, some literally with tears in their eyes, protested that never in their lives had they voted for an increase in the national debt limit, but they were doing it just this one time because they "trusted Ronald Reagan" to balance the budget from then on. The rest, alas, is history, and the conservative Republicans never saw fit to cry again. Instead, they found themselves adjusting rather easily to the new era of huge permanent deficits. The Gramm-Rudman law, allegedly designed to eradicate deficits in a few years, has now unsurprisingly bogged down in enduring confusion.

Even less edifying is the spectre of Reaganomists who had inveighed against deficits—that legacy of Keynesianism—for decades. Soon Reaganite economists, especially those staffing economic posts in the executive and legislative branches, found that deficits really weren't so bad after all. Ingenious models were devised claiming to prove that there really *isn't* any deficit. Bill Niskanen, of the Reagan Council of Economic Advisors, came up with perhaps the most ingenious discovery: that there is no reason to worry about government deficits, since they are balanced by the growth in value of government assets. Well, hooray, but it is rather strange to see economists whose alleged goal is a drastic reduction in the role of government cheering for ever greater growth in government assets. Moreover, the size of government assets is really beside the point. It would only be of interest if the federal government were just another private business firm, about to go into liquidation, and whose debtors could then be satisfied by a parceling out of its hefty assets. The federal government is not about to be liquidated; there is no chance, for example, of an institution ever going into bankruptcy or liquidation that has the legal right to print whatever money it needs to get itself—and anyone else it favors—out of any financial hole.

There has also been a fervent revival of the old left-Keynesian idea that "deficits don't matter, anyway." Deficits are stimulating, we can "grow ourselves out of deficits," etc. The most interesting, though predictable, twist was that of the supply-siders, who, led by Professor Arthur Laffer and his famous "curve," had promised that if income tax rates were cut, investment and production would be so stimulated that a fall in tax rates would increase tax *revenue* and balance the budget. When the budget was most emphatically *not* balanced, and deficits instead got worse, the supply-siders threw Laffer overboard as the scapegoat, claiming that Laffer was an extremist, and the only propounder of his famous curve. The supply-siders then retreated to their current, fall-back position, which is quite frankly Keynesian; namely deficits don't matter anyway, so let's have cheap money and deficits; relax and enjoy them. About the only Keynesian phrase we have *not* heard yet from Reaganomists is that the national debt "doesn't matter because we owe it to ourselves," and I am waiting for some supply-sider to adopt this famous 1930s phrase of Abba Lerner without, of course, bothering about attribution.

One way in which Ronald Reagan has tried to seize the moral high road on the deficit question is to divorce his rhetoric from reality even more sharply than usual. Thus, the proposer of the biggest deficits in American history has been calling vehemently for a Constitutional amendment to require a balanced budget. In that way, Reagan can lead the way toward permanent $200 billion deficits, while basking in the virtue of proposing a balanced budget amendment, and trying to make Congress the fall guy for our deficit economy.

Even in the unlikely event that the balanced budget amendment should ever pass, it would be ludicrous in its lack of effect. In the first place, Congress can override the amendment at any time by three-fifths vote. Secondly, Congress is not required to actually *balance* any budget; that is, its actual expenditures in any given year are not limited to the revenues taken in. Instead, Congress is only required to prepare an estimate of a balanced budget for a *future* year; and of course, government estimates, even of its own income or spending, are notoriously unreliable. And third, there is no *enforcement* clause; suppose Congress *did* violate even the requirement for an estimated balanced budget: What is going to happen to the legislators? Is the Supreme Court going to summon marshals and put the entire U.S. Congress in jail? And yet, not only has Reagan been pushing for such an absurd amendment, but so too have many helpful Reaganomists.

Tax Cuts. One of the few areas where Reaganomists claim success without embarrassment is taxation. Didn't the Reagan administration, after all, slash income taxes in 1981, and provide both tax cuts and "fairness" in its highly touted tax reform law of 1986? Hasn't Ronald Reagan, in the teeth of opposition, heroically held the line against all tax increases?

The answer, unfortunately, is no. In the first place, the famous "tax cut" of 1981 did not cut taxes at all. It's true that tax rates for higher-income brackets were cut; but for the average person, taxes rose, rather than declined. The reason is that, on the whole, the cut in income tax rates was more than offset by two forms of tax increase. One was "bracket creep," a term for inflation quietly but effectively raising one into higher tax brackets, so that you pay more and proportionately higher taxes *even though* the tax rate schedule has officially remained the same. The second source of higher taxes was Social Security taxation, which kept increasing, and which helped taxes go up overall. Not only that, but soon thereafter; when the Social Security System was generally perceived as on the brink of bankruptcy, President Reagan brought in Alan Greenspan, a leading Reaganomist and now Chairman of the Federal Reserve, to save Social Security as head of a bipartisan commission. The "saving," of course, meant still higher Social Security taxes then and forevermore.

Since the tax cut of 1981 that was not really a cut, furthermore, taxes have gone up every single year since, with the approval of the Reagan administration. But to save the president's rhetorical sensibilities, they weren't *called* tax increases. Instead, ingenious labels were attached to them; raising of "fees," "plugging loopholes" (and surely everyone wants loopholes plugged), "tightening IRS enforcement," and even revenue enhancements." I am sure that all good Reaganomists slept soundly at night knowing that even though government revenue was being "enhanced," the president had held the line against tax increases.

The highly ballyhooed Tax "Reform" Act of 1986 was supposed to be economically healthy as well as "fair"; supposedly "revenue neutral," it was to bring us (a) simplicity, helping the public while making the lives of tax accountants and lawyers miserable; and (b) income tax cuts, especially in the higher income brackets and in everyone's marginal tax rates (that is, income tax rates on additional money you may earn); and offset only by plugging those infamous loopholes. The reality, of course, was very different, In the first place, the administration has succeeded in making the tax laws so complicated that even the IRS admittedly doesn't understand it, and tax accountants and lawyers will be kept puzzled and happy for years to come.

Secondly, while indeed income tax rates were cut in the higher brackets, many of the loophole plugs meant huge tax increases for people in the upper as well as middle income brackets. The point of the income tax, and particularly the marginal rate cuts, was the supply-sider objective of lowering taxes to stimulate savings and investment. But a National Bureau study by Hausman and Poterba on the Tax Reform Act shows that over 40% of the nation's taxpayers suffered a marginal tax *increase* (or at best, the same rate as before) and, of the majority that *did* enjoy marginal tax cuts, only 11% got reductions of 10% or more. In short, most of the tax reductions were negligible. Not only that; the Tax Reform Act, these authors reckoned, would lower savings and investment overall because of the huge increases in taxes on business and on capital gains. Moreover savings were also hurt by the tax law's removal of tax deductibility on contributions to IRAs.

Not only were taxes increased, but business costs were greatly raised by making business expense meals only 80% deductible, which means a great expenditure of business time and energy keeping and shuffling records. And not only were taxes raised by eliminating tax shelters in real estate, but the law's claims to "fairness" were made grotesque by the retroactive nature of many of the tax increases. Thus, the abolition of tax shelter deductibility was made retroactive, imposing huge penalties after the fact. This is ex post facto legislation outlawed by the Constitution, which prohibits making actions retroactively criminal for a time period when they were perfectly legal. A friend of mine, for example, sold his business about eight years ago; to avoid capital gains taxes, he incorporated his business in the American Virgin Islands, which the federal government had made exempt from capital gains taxes in order to stimulate Virgin Islands development. Now, eight years later, this tax exemption for the Virgin Islands has been removed (a "loophole" plugged!) but the IRS now expects my friend to pay full retroactive capital gains taxes plus interest on this eight-year old sale. Let's hear it for the "fairness" of the tax reform law!

But the bottom line on the tax question: is what happened in the Reagan era to government tax revenues overall? Did the amount of taxes extracted from the American people by the federal government go up or down during the Reagan years? The facts are that federal tax receipts were $517 billion in the last Carter year of 1980. In 1986, revenues totaled $769 billion, an increase of 49%. Whatever that is, that doesn't look like a tax *cut.* But how about taxes as a percentage of the national product? There, we can concede that on a percentage criterion, overall taxes fell very slightly, remaining about even with the last year of Carter. Taxes fell from 18.9% of the GNP to 18.3%, or for a better gauge, taxes as percentage of net private product fell from 27.2% to 26.6%. A large absolute increase in taxes, coupled with keeping taxes as a percentage of national product about even, is scarcely cause for tossing one's hat in the air about a whopping reduction in taxes during the Reagan years.

In recent months, moreover; the Reagan administration has been more receptive to loophole plugging, fees, and revenues than ever before. To quote from the Tax Watch column in the *New York Times* (October 13, 1987): "President Reagan has repeatedly warned Congress of his opposition to any new taxes, but some White House aides have been trying to figure out a way of endorsing a tax bill that could be called something else."

In addition to closing loopholes, the White House is nudging Congress to expand the usual definition of a "user fee," not a tax because it is supposed to be a fee for those who use a government service, say national parks or waterways. But apparently the Reagan administration is now expanding the definition of "user fee" to include excise taxes, on the assumption, apparently, that every time we purchase a product or service we must pay government for its permission. Thus, the Reagan administration has proposed not, of course, as a tax *increase*, but as an alleged "user fee," a higher excise tax on every international airline or ship ticket, a tax on all coal producers, and a tax on gasoline and on highway charges for buses. The administration is also willing to support, as an alleged user fee rather than a tax, a requirement that employers, such as restaurants, start paying the Social Security tax on tips received by waiters and other service personnel.

In the wake of the stock market crash, President Reagan is now willing to give us a post-crash present of: higher taxes that will openly be *called* higher taxes. On Tuesday morning, the White House declared: "We're going to hold to our guns. The president has given us marching orders: no tax increase." By Tuesday afternoon, however, the marching orders had apparently evaporated, and the president said that he was "willing to look at" tax-increase proposals. To greet a looming recession with a tax increase is a wonderful way to bring that recession into reality. Once again, President Reagan is following the path blazed by Herbert Hoover in the Great Depression of raising taxes to try to combat a deficit.

Deregulation. Another crucial aspect of freeing the market and getting government off our backs is deregulation, and the administration and its Reaganomists have been very proud of its deregulation record. However, a look at the record reveals a very different picture. In the first place, the most conspicuous examples of deregulation; the ending of oil and gasoline price controls and rationing, the deregulation of trucks and airlines, were all launched by the Carter administration, and completed just in time for the Reagan administration to claim the credit. Meanwhile, there were other promised deregulations that never took place; for example, abolition of natural gas controls and of the Department of Energy.

Overall, in fact, there has probably been not deregulation, but an increase in regulation. Thus, Christopher De Muth, head of the American Enterprise Institute and a former top official of Reagan's Office of Management and the Budget, concludes that "the President has not mounted a broad offensive against regulation. There hasn't been much total change since 1981. There has been more balanced administration of regulatory agencies than we had become used to in the 1970s, but many regulatory rules have been strengthened."

In particular, there has been a fervent drive, especially in the past year; to intensify regulation of Wall Street. A savage and almost hysterical attack was launched late last year by the Securities and Exchange Commission and by the Department of Justice on the high crime of "insider trading." Distinguished investment bankers were literally hauled out of their offices in manacles, and the most conspicuous inside trader received as a punishment (1) a fine of $100 million; (2) a lifetime ban on any further security trading, and *(3)* a jail term of one year, suspended for community service. And this is the *light* sentence, in return for allowing himself to be wired and turn informer on his insider trading colleagues.

All this was part of a drive by the administration to protect inefficient corporate managers from the dread threat of takeover bids, by which means stockholders are able to dispose easily of ineffective management and turn to new managers. Can we really say that this frenzied assault on Wall Street by the Reagan administration had no impact on the stock market crash [October 1987]?

And yet the Reagan administration has reacted to the crash not by letting up, but by *intensifying*, regulation of the stock market. The head of the SEC strongly considered closing down the market on October 19, and some markets were temporarily shut down—a case, once again, of solving problems by shooting the market—the messenger of bad news. October 20, the Reagan administration collaborated in announcing early closing of the market for the next several days. The SEC has already moved, in conjunction with the New York Stock Exchange, to close down computer program trading on the market, a trade related to stock index futures. But blaming computer program trading for the crash is a Luddite reaction; trying to solve problems by taking a crowbar and wrecking machines. There were no computers, after all, in 1929. Once again, the instincts of the administration, particularly in relation to Wall Street, is to regulate. Regulate, and inflate, seem to be the Reaganite answers to our economic ills.

Agricultural policy, for its part, has been a total disaster. Instead of ending farm price supports and controls and returning to a free market in agriculture, the administration has greatly increased price supports, controls and subsidies. Furthermore, it has brought a calamitous innovation to the farm program; the PIK program ["Payments In Kind"] in which the government gets the farmers to agree to drastic cuts in acreage, in return for which the government pays back the wheat or cotton surpluses previously held off the market. The result of all this has been to push farm prices far higher than the world market, depress farm exports, and throw many farmers into bankruptcy. All the administration can offer, however, is more of the same disastrous policy.

Foreign Economic Policy. If the Reagan administration has botched the domestic economy, even in terms of its own goals, how has it done in foreign economic affairs? As we might expect, its foreign economic policy has been the exact opposite of its proclaimed devotion to free trade and free markets. In the first place, Adam Smith ties and Bastiat to the contrary notwithstanding, the Reagan administration has been the most belligerent and nationalistic since Herbert Hoover. Tariffs and import quotas have been repeatedly raised, and Japan has been treated as a leper and repeatedly denounced for the crime of selling high quality products at low prices to the delighted American consumer.

In all matters of complex and tangled international economics, the only way out of the thicket is to keep our eye on one overriding question: Is it good, or bad, for the American consumer? What the American consumer wants is good quality products at low prices, and so the Japanese should be welcomed and admired instead of condemned. As for the alleged crime of "dumping," if the Japanese are really foolish enough to waste money and resources by dumping—that is selling goods to us below costs—then we should welcome such a policy with open arms; anytime the Japanese are willing to sell me Sony TV sets for a dollar, I am more than happy to take the sets off their hands.

Not only foreign producers are hurt by protectionism, but even more so are American consumers. Every time the administration slaps a tariff or quota on motorcycles or on textiles or semiconductors or clothespins—as it did to bail out one inefficient clothespin plant in Maine—every time it does that, it injures the American consumer.

It is no wonder, then, that even the Reaganomist Bill Niskanen recently admitted that "international trade is more regulated than it was 10 years ago." Or, as Secretary of Treasury James Baker declared proudly last month: "President Reagan has granted more import relief to U.S. industry than any of his predecessors in more than half a century." Pretty good for a Bastiat follower.

Another original aim of the Reagan administration, under the influence of the monetarists, or Friedmanites, was to keep the government's hand completely off exchange rates, and to allow these rates to fluctuate freely on the market, without interference by the Federal Reserve or the Treasury. A leading monetarist, Dr. Beryl W. Sprinkel, was made Undersecretary of the Treasury for Monetary Policy in 1981 to carry out that policy. But this non-intervention is long gone, and Secretary Baker, aided by the Fed, has been busily engaged in trying to persuade other countries to intervene to help coordinate and fix exchange rates. After being removed from the Treasury after several years, Sprinkel was sent to Siberia and ordered to keep quiet, as head of the Council of Economic Advisors; and Sprinkel has recently announced that he will leave the government altogether.

Moreover, the policy of foreign aid and foreign lending conducted or encouraged by the government has proceeded more intensely than even under previous administrations. Reagan has bailed out the despotic government of Poland with massive loans, so that Poland could repay its Western creditors. A similar policy has been conducted in relation to many shaky or bankrupt third world governments. The spectre of bank collapse from foreign loans has been averted by bailouts and promises of bailout from the Federal Reserve, the nation's only manufacturer of dollars, which it can produce at will.

Wherever we look, then, on the budget, in the domestic economy, or in foreign trade or international monetary relations, we see government even more on our backs than ever. The burden and the scope of government intervention under Reagan has increased, not decreased. Reagan's *rhetoric* has been calling for reductions of government; his actions have been precisely the reverse. Yet both sides of the political fence have bought the rhetoric and claim that it has been put into effect.

Reaganites and Reaganomists, for obvious reasons, are trying desperately to maintain that Reagan has indeed fulfilled his glorious promises; while his opponents, intent on attacking the bogey of Reaganomics, are also, and for opposite reasons, anxious to claim that Reagan has really put his free-market program into operation. So we have the curious, and surely not healthy, situation where a mass of politically interested people are totally misinterpreting and even misrepresenting the Reagan record; focusing, like Reagan himself, on his rhetoric instead of on the reality.

What of the Future? Is there life after Reaganomics? To assess coming events, we first have to realize that Reaganomics has never been a monolith. It has had several faces; Reaganomics has been an uneasy and shifting coalition of several clashing schools of economic thought. In particular, the leading schools have been the conservative Keynesians, the Milton Friedman monetarists, and the supply-siders. The monetarists, devoted to a money rule of a fixed percentage increase of money growth engineered by the Federal Reserve, have come a cropper. Fervently believing that science is nothing else but prediction, the monetarists have self-destructed by making a string of self-confident but disastrous predictions in the last several years. Their fate illustrates the fact that he who lives by prediction shall die by it. Apart from their views on money, the monetarists generally believe in free markets, and so their demise has left Reaganomics in the hands of the other two schools, neither of whom are particularly interested in free markets or cutting government.

The conservative Keynesians—the folks who brought us the economics of the Nixon and Ford administrations—saw Keynesianism lose its dominance among economists with the inflationary recession of 1973-74, an event which Keynesians stoutly believed could never possibly happen. But while Keynesians have lost their old eclat, they remain with two preoccupations: (1) a devotion to the New Deal-Fair Deal-Great Society-Nixon-Ford-Carter-status quo, and (2) a zeal for tax increases to moderate the current deficit. As for government spending, never has the thought of actually cutting expenditures crossed their minds. The supply-siders, who are weak in academia but strong in the press and in exerting enormous political leverage per capita, have also no interest in cutting government spending. To the contrary, both conservative Keynesians and supply-siders are prepared to call for an increasing stream of goodies from government.

Both groups have also long been keen on monetary inflation. The supply-siders have pretty much given up the idea of tax cuts; their stance is now to accept the deficit and oppose any tax increase. On foreign monetary matters, the conservative Keynesians and the supply-siders have formed a coalition; both groups embrace Secretary of Treasury Baker's Keynesian program of fixed exchange rates and an internationally coordinated policy of cheap money.

Politically, the Republican presidential candidates can be assessed on their various preferred visions of Reaganomics. Vice-President Bush *is,* of course, a conservative Keynesian and a veteran arch-enemy of supply-side doctrine, which he famously denounced in 1980 as "voodoo economics." Secretary of Treasury James Baker is a former Bush campaign aide. White House Chief of Staff Howard Baker is also in the conservative Keynesian camp, as was Paul Volcker, and is Alan Greenspan. Since former White House Chief of Staff Donald Regan was a fellow-traveller of the supply-siders, his replacement by Howard Baker as a result of Iranscam was a triumph of conservative Keynesians over the supply-siders. This year, in fact, our troika of Economic Rulers, Greenspan and the two Bakers, has all been squarely in the conservative Keynesian camp.

Senator Robert Dole, the other Republican front-runner for president, is also a conservative Keynesian. In fact, Bob Dole carried on the fight for higher taxes even when it was relatively unfashionable inside the administration. So devoted to higher taxes is Bob Dole, in fact, that he is reputed to be the favorite presidential candidate of the Internal Revenue Service. So if you like the IRS, you'll love Bob Dole.

Congressman Jack Kemp, on the other hand, has been the political champion of the supply-siders ever since supply-side was invented in the late 1970s. Kemp's call for higher government spending, and approval of deficits, monetary inflation, and fixed exchange rates, all attest to his supply-side devotion.

Jack Kemp, however, has for some reason not struck fire among the public, so Mrs. Jeanne Kirkpatrick stands ready in the wings to take up the cause if Kemp should fail to rally. I confess I have not been able to figure out the economic views of the Reverend Pat Robertson, although I have a hunch they do not loom very large in his world outlook.

Although there are a lot of Democratic candidates out there, it is hard at this point to distinguish one from another, on economic policy or indeed on anything else. As Joe Klein recently wrote in a perceptive article in *New York* magazine, the Republicans are engaged in an interesting clash of different ideas, while the Democrats are all muddily groping toward the center. To make the confusion still greater, Klein points out that Republicans are busily talking about "compassion," while the Democrats are all stressing "efficiency." One thing is fairly clear; Congressman Gephardt is an all-out protectionist, thoroughly jettisoning the old Democratic commitment to free trade, and is the most ardent statist in agricultural policy.

On monetary and fiscal policy, the Democrats are the classic party of *liberal* Keynesianism, in contrast to the Republican policy of *conservative* Keynesianism. The problem is that, in the last decade or two, it has become increasingly difficult to tell the difference. Apart from supply-sider Kemp, we can expect the president of either party to be a middle-of-the-road liberal/conservative Keynesian. And so we can expect the next administration's economic policies to be roughly the same as they are now. Except that the *rhetoric* will be different. So we can, therefore, expect diverse perceptions and responses to a similar reality by the public and by the market. Thus, if Jack Kemp becomes president, the public will wrongly consider him a champion of hard money, budget cutting, and the free market. The public will therefore underestimate the wildly inflationist reality of a Kemp administration. On the other hand, the public probably perceives the Democrats to be wilder spenders relative to the Republicans than they really are. So should the Democrats win in

1988, we can expect the market to overestimate the inflationary measure of a Democratic administration.

All of this, along with the universal misperception of Reaganomics, illustrates once more the wisdom of those incisive political philosophers, Gilbert and Sullivan: “Things are not always what they seem; skim milk masquerades as cream.”