

The Two Faces of Ronald Reagan

by Murray N. Rothbard

A curious thing is happening in this extraordinary election year. The liberals are beginning to adjust to Ronald Reagan. After all, they claim, he's getting more moderate, he'll have to shift to the center to win the election, and he *was* a moderate and "flexible" governor of California for eight years. Maybe he won't be that bad, certainly not as erratic as Carter.



Whatever happened to the liberal fighting spirit, so evident when Barry Goldwater, Reagan's spiritual ancestor in the presidential race, was bitterly savaged in 1964? Part of the difference is subliminal, a matter of personality and image. Goldwater's persona was jut-jawed, tough, Wild West, threatening to liberal intellectuals. Reagan, on the other hand, is soothing, calm, slow, almost Quaaluded. Surely this bland, aged, amiable guy – this "nice dope," as Garry Wills referred to him – can't be a threat to anyone.

But the liberals are making a bad, even catastrophic, mistake. They are captive to the knee-jerk liberal version of political soap opera in which the Good Guys are pleasant, amiable, caring sorts like Dustin Hoffman, and the reactionary Bad Guys scowl and never feel deeply, a la Clint Eastwood. Unfortunately, it doesn't always work that way.

Liberals are being soft-soaped into accepting or at least tolerating Reagan, but opponents of big government see him in a different light. While liberals are convincing themselves that Reagan is flexible and moderate, the growing number of people fed up with government are persuaded that he remains one of them. After all, he talks like them. For years, Reagan has taken to the airwaves and the podium with his

anti-big government, pro-freedom message. Surely, if he became President, federal regulations would be abolished, taxes and government expenditures would be slashed, and the government would get off our backs and out of our pocketbooks. Right? Wrong again. For, oddly and paradoxically, each set of blind men has hold of a different part of the elephant. Both the liberals and the right-wing populists are right about Reagan, yet both are making a tragic, even disastrous, mistake. For Reagan is both flexible and fanatical – but on different issues. Tragically, Reagan is flexible and moderate when it comes to freedom and big government, but hard-nosed and fanatical when it comes to global conflict.

Ronald Reagan can be understood only in the context of the modern conservative movement, in which he has flourished for three decades. Reagan is a typical conservative, with all the strengths and weaknesses, all the crotchets and prejudices, of that distinctive breed. The key to understanding him may lie in understanding his political background. Reagan was converted to conservatism in the early 1950s, when he made speeches on free enterprise for General Electric. He rose to conservative political leadership after delivering his polished "The Speech" on behalf of an otherwise disastrous Goldwater campaign in 1964. He has been the perennial conservative candidate for President ever since he became governor of California in 1966. And during the last decade he has been the preeminent political spokesman of the movement.

What animates conservatives? The movement's intellectuals have always been very high on monarchy; many conservative intellectual soirees have been devoted to discussing the relative merits of the Bourbons, the Stuarts, and the Hapsburgs. But for mainstream American conservatives like Reagan, the upper crust's devotion to monarchy has never taken hold. The Constitution and the Founding Fathers are good enough for their basic political theory.

Conservative politicians may be prepared to accept the intellectuals' fierce devotion to theocracy and compulsory morality, but in a moderate, watered-down form. The government, they contend, must be used as an instrument of moral enforcement which in practice means cracking down on illicit sex, upholding the family, and bringing back prayer to the public schools. Pornography and prostitution are to be outlawed, gays forced back into the closet, and, in general, we are to return to the concept of this country as a Christian America, suitably scrubbed, of course, to make room for Judeo-Christians.

To many liberals, the most fearsome aspect of conservatism is its alleged dedication to a free market economy and to reducing government to a bare minimum. But the conservative devotion to a free economy is little more than a rhetorical bow to tradition. Modern American conservatism was after all, born as a reaction against the New Deal's leap into statism; its original slant was indeed in favor of the free market and hostile to government interference in the economy. And in recent years, conservatives have tried to tap into the rising populist hostility to heavy taxation and big government.

But their hearts are not in it. Has anyone ever seen a conservative rally jump to its feet to honor the free market? Certainly not. Prayers in the schools and bans on abortion are far more likely to rouse the beast. For three decades, however, there has been one set of issues, one focus, that has been closest to the conservative heart: conflict with the Soviet Union, war against "godless communism," the pitting of America's military might against that satanic worldwide conspiracy headquartered in Moscow. Make no mistake; if we bring a mainline conservative to the Oval Office, we are, whether we know it or not, courting a nuclear holocaust. It will probably mean repeated hard-line confrontations, at every conceivable point, with the Soviet Union. In this global game, we will be caught in the grisly Catch-22 of conservative strategic thought. For if we issue an ultimatum and the Russians back down, it will simply prove that the only way to deal with them is to push continually and be prepared to fight at every turn. And if we lose just once at this game of chicken and a nuclear war results, it will only mean the Russians were every bit as monstrous and inhuman as we thought and thus it was bound to happen anyway.

Inevitably joined to a foreign policy of global crusading – once summed up in the memorable slogan, "Kill a Commie for Christ" – is the imposition of a garrison society at home. To the conservative, "freedom," useful though it may be as a counterpoise to Bolshevik slavery, is a highly restricted concept. Aside from the commandments of Christian morality, freedom must give way to the aggressive requirements of the national security state. Communists and other suspected subversives must be watched, spied upon, and rounded up with no civil libertarian niceties allowed to cripple the Lord's work. And even the "free" economy will be bent to the sway of this rampant militarism.

Bright souls have long divined an inner contradiction that lies at the heart of the conservative movement. How can we reconcile the plea for individual liberty, the free market, and the minimizing of government with the call for global confrontation and increased power to the FBI and the Pentagon? How can an economy be free of government control when an ever greater share is to be deflected to military use? How can a free market be reconciled with an aggrandized military-industrial complex?

Conservatives, understandably enough, never talk about this contradiction; it's embarrassing. But there is a way in which the contradiction can be reconciled, just as conservatives can be moderate and fanatical at the same time: It is a question of priorities. For most conservatives, the free market and individual liberty are primarily rhetoric. Conservatives tend to be flexible and moderate on liberty and the free market because they don't care much about them. But there are other subjects about which they care deeply: the criminalization of sin, the restoration of a Christian America, and above all the destruction of international communism. Here they will not falter, regardless of how soothing or laid-back the individual conservative may be. Freedom, private property, minimal government – all that can go, they get a chance to rattle their missiles.

Ronald Reagan's thirst for confrontation is easy to document. His "solution" to the Afghanistan "crisis" – for the United States a crisis only because Jimmy Carter needed one – was the monumental and loony irrelevancy of throwing a tight blockade around.... Cuba. As would-be President Reagan put it: "The Soviet Union owns Cuba, lock, stock, and barrel. We blockade it, now it's a grave logistical problem for them.... We blockade Cuba, which could not afford that blockade, and we say to them: 'Get your troops out of Afghanistan and we give up the blockade.'" A generous offer indeed. But Reagan is probably in favor of blockading Cuba anyway, in view of the alleged threat posed by the phantom brigade of Soviet troops stationed there.

One of the few beneficial fallouts of the Vietnam War was the Ford administration's hesitancy about getting overtly involved in the Angolan civil war. Reagan had no such qualms. In January 1976, he was urging the United States to "eyeball" the Russians over Angola and to tell them: "Out – we'll let them fight it out themselves, or you're going to have us to deal with." This May, Reagan was still at it, calling for military aid to the Savimbi guerrillas in Angola. As Reagan put it, with unconscious irony, "Savimbi... [has] never asked for any kind of help, except weapons, and I don't see... why we shouldn't provide them. Savimbi was gracious enough not to demand American troops, so, luckily, we are spared Reagan's thinking on that subject.

Mindful of American political realities, every presidential candidate of either party has been a staunch supporter of Israel. But Reagan, as a conservative leader, is devoted to Israel with particular fervor. To Reagan Israel is not simply a political piety but part of the global struggle against the red menace. As he put it, Israel "serves as a vital strategic asset with its highly trained and experienced military forces, and is a deterrent to Soviet expansion in that troubled part of the world." Former Nixon special aide William Safire exulted at Reagan's commitment to "an undivided Jerusalem" – meaning simply and squarely, in Reagan's words, that "the sovereignty is Israel's" over the entire city. As for the PLO, to Reagan it is simply a "terrorist group" with which no negotiations are possible.

But not all terrorists are the same. "Our" terrorists and dictators are fine, so long as they are willing to take part in the global crusade. Taiwan and South Korea are valued allies. Predictably, the Shah of Iran is a great guy; after all, he was a staunch ally of the United States for thirty years, wasn't he? As for the shah's dictatorial regime, Reagan is willing to sound like a permissive cultural relativist: "There are different parts of the world with different customs than ours." Margaret Mead couldn't have said it better. But the permissive Reagan fades away quickly when the enemy moves into view. His solution to the Vietnam question? "We could invade the place [North Vietnam], pave it over, and be home for lunch."

Arms to Afghan rebels, air force bases in the Sinai, a naval base off Saudi Arabia – bases, bases, everywhere are on the Reagan agenda. Military spending would increase dramatically: The B-1 bomber, the neutron bomb, the Trident submarine, the MX missile, all would be

built and more. The *New York Times*' characterization of Reagan's proposed increase in military spending as "vast" scarcely exaggerates. As Reagan himself put it in March: "I think it's wrong to say we're safe because we're spending 5 percent more or 3 percent more or anything. No, go by the weapons. Now, I have outlined a number of weapon shortages that we have, but I don't have access to the high command. Just ask these men who would have to fight the war what are the essential weapons." Sure. Just ask the Pentagon.

Reagan is deeply concerned about not being too lily-livered to shrink from nuclear confrontation with the Soviets. In fact, he strongly implies that we should seek a confrontation in order to liberate the masses behind the Iron Curtain. As Reagan put it in his famous 1964 speech, "We are being asked to buy our safety from the threat of the atomic bomb by selling into permanent slavery our fellow human beings enslaved behind the Iron Curtain, to tell them to give up their hope for freedom because we are ready to make a deal with their slave masters." (How the slaves of communism would be aided by nuclear incineration is difficult to say, unless, of course, we have made the decision that they are better off dead than red.)

For Reagan, recent administrations have been crippled by persistent "appeasement" of the Soviets. Kissinger was the architect of détente. Carter's policy "borders on appeasement." Carter was too "weak" on Iran and Afghanistan. Carter's line-drawing in the sands of the Persian Gulf was not nearly sufficient; the President, opined Reagan, "is encouraging the belief that this nation will not risk war no matter what the provocation." Furthermore, Carter should deliver specific ultimatums stating what we will do if Russia does not withdraw from Afghanistan. As in virtually every other matter, the United States should be sending "strong signals" to Russia. On Saudi Arabia, for example, Reagan seems to be threatening war with Russia not only if Russia should ever invade that country, but even if the Saudi government we love so much is toppled by a domestic uprising.

As Reagan puts it, we must "let it be known that we are not going to let the Saudi Arabian government fall, either from trouble from within or from pressure from without." One shudders at the new Vietnams that will be in store under President Reagan. On the Iranian hostage question, Reagan, like all the other candidates, is vague, except that he would support putting "extreme pressure" on Iran, perhaps an all-out blockade. But on one point the laid-back, compassionate Reagan is specific: The U.S. hostages in Iran should not have visits from their families. That would be "almost as if we were recognizing the right of the Iranians to hold them."

In sum, what are we to think of a man who sincerely attacks the Carter-Brzezinski administration for generating "the same kind of atmosphere as when Neville Chamberlain went tapping his cane on the cobblestones of Munich"? To Reagan, the baleful influence of Brzezinski and the other Trilateral Commission members in the Carter administration has meant "a softening of defense," a belief "that trade and business should transcend, perhaps, the national defense."

On questions of domestic policy – the free market and big government – Reagan is a very different person. Here his flexibility, moderation, and pragmatism come to the fore. In the first place, Reagan's record as governor of California – where he had absolutely no access to the nuclear button – was all too moderate. Despite his bravado about having stopped the growth of state government, the actual story is that the California budget grew by 122 percent during his eight years as governor, not much of an improvement on the growth rate of 130 percent during the preceding two terms of free-spending liberal Pat Brown. The state bureaucracy increased during Reagan's administration from 158,000 to 192,000, a rise of nearly 22 percent – hardly squaring with Reagan's boast of having "stopped the bureaucracy cold."

Neither is Reagan's record on taxes any comfort. He started off with a bang by increasing state taxes nearly \$1 billion in his first year in office – the biggest tax increase in California history. Income, sales, corporate, bank, liquor, and cigarette taxes were all boosted dramatically. Two more tax hikes – in 1971 and 1972 – raised revenues by another \$500 million and \$700 million respectively.

By the end of Reagan's eight years, state income taxes had nearly tripled, from a bite of \$7.68 per \$1000 of personal income to \$19.48. During his administration, California rose in a ranking of the states from twentieth to thirteenth in personal income tax collection per capita, and it rose from fourth to first in per capita revenue from corporate income taxes. As John Vickerman, chief deputy in the legislative analyst's office in Sacramento, concluded: "Obviously, the tax bite went up under the Reagan regime. It was a significant increase even when you start considering inflationary dollars.... The rate of growth was about the same as his predecessor." Reagan is now trying to take some credit for Proposition 13 and the popular tax-cutting movements in California. But during his own administration things were quite different; Reagan bitterly fought against similar initiatives in 1968 and 1972.

Moreover, Reagan likes to talk the conservative line that federal programs should, in large part, be turned over to the states, and state programs to the localities, so that government can be closer to the people. But what did he actually do as governor? A large part of his tax increases went to pay for local programs controlled by the state; Reagan accelerated the trend of collecting tax money on the state level to spend on state-controlled local programs. He created seventy-three new state government councils and commissions, with a total budget, in his last year alone, of \$12 million. Included was the California Energy Commission, which put the state hip-deep into the energy business: A three-year review process is now required before any new power plant can be constructed in California.

Ronald Reagan is proudest of the welfare reforms he enacted in 1971, which removed more than 510,000 from the welfare rolls by – among other things – forcing adults to support their welfare parents. He then turned around and boosted the amount of welfare paid to those

remaining by 43 percent, so that total welfare costs to the taxpayer didn't decline at all.

So much for Reagan as governor. How about as President – is he about to usher in a laissez-faire paradise? As Reagan's fellow conservative actor, Duke Wayne, used to say: not hardly. In March Reagan came out in support of the Food and Drug Administration, provided it confine its regulation to the "purity" rather than the effectiveness of a product. As for the Occupational Safety and Health Administration, a meddling outfit hated more intensely by small businessmen across the country than any other, he would expand it. Not only does Reagan favor continuing OSHA's picayune "safety inspections," but he would go further and "use OSHA as a government laboratory to see if we cannot find an answer to those problems and consult with industry to eliminate them." OSHA's pernicious compulsory powers, according to Reagan, should continue.

On trucking deregulation, which even Ted Kennedy favors, Reagan has also backed off. All he will commit himself to is the establishment of an outside "task force" to "sit down with the regulations and work out between them what they thought was a fair elimination of some and keeping of others." In short, on trucking, Kennedy is more pro-free market than Reagan is. When a bewildered reporter asked how Reagan could square this view with free market principles, the candidate took refuge in real or pretended ignorance: "Well, I just have to tell you that I have been counseled by people with contrary views regarding this particular field. I could not make a decision on the information that we've got as to whether one side or the other is right." This macho gunslinger who thinks nothing of risking a nuclear shootout with the Kremlin over a blockade of Cuba is weak and squishy soft on deregulation of trucking.

In the macroeconomic arena, for some months a well-publicized battle has been raging for the soul of Ronald Reagan. Two groups are in bitter conflict, with Reagan trying to pick his way through the minefield. In one camp are what we may call "the Responsibles," all the economists prominent in the Nixon and Ford administrations. They comprise a coalition of monetarists, headed by Milton Friedman and including Martin Anderson, and conservative Keynesians, including George Shultz, Arthur Burns, Alan Greenspan, Charles E. Walker, Herbert Stein, and William Simon.

In the area of economic theory Friedmanites and Keynesians are at odds, but in the realm of practical policy they are close enough for a cozy coalition. During an inflationary period conservative Keynesians call for a balanced budget, perhaps even a surplus; a budget deficit is abhorred as propelling further inflation. To the Friedmanites, deficits per se are not inflationary, only those financed by the banking system. Since in practice any deficit is likely to be financed by the banks, both groups can unite in calling for a balanced budget to combat inflation. In that case, however, the Responsibles – with grave reluctance and appropriate sobriety – have to counsel Reagan against any large tax cut unless such a cut is matched by an equivalent slash in government

spending.

But the Responsibles feel in their hearts that cutting government spending is politically unrealistic. And so, from Friedman to Simon, they have opted for a constitutional amendment, on the state and federal levels, to limit the future growth of government spending to its current proportion of the gross national (or state) product. This is in line with the constitutional amendment proposed by the establishment-conservative National Tax Limitation Committee, as well as Proposition I, which Reagan pushed for in California and which failed to pass in 1973.

When analyzed, the position of the Responsibles, sober and responsible though it may be, holds very little charm for the critic of big government, or indeed for anyone else. When you peel away the fiery free-market rhetoric of a Simon or a Friedman, the practical political offer is simply more of the same: the current status quo. To hard-working people angry at high taxes and wild spending, all that the Responsibles can offer is to keep government at its current pace relative to the private sector. No tax cuts, no reduced government, just fiscal rectitude. Who is going to go to the barricades for that?

It is this grave defect in the political economy of the Responsibles that has given rise to a maverick group in the Reagan economic camp, the neopopulists – or, as one of them cheerfully conceded, the "Wild Men." Guru of the neopopulists is Arthur Laffer, of the University of Southern California; the other key figure is Laffer's propagandist and point man, Jude Wanniski, formerly of the *Wall Street Journal*. Their political leader in the Reagan camp is Representative Jack Kemp of New York and their overall political philosopher is Irving Kristol, godfather of the neoconservative movement.

The Laffer group begins its analysis with the keen perception that no one is going to jump with excitement over a balanced budget and fiscal sobriety. The Republicans, they assert, should start ladling out their own goodies to the masses; why leave promises to the liberal big spenders, with conservatives offering only dour hangovers for the morning after? Specifically, the neopopulists ask themselves: What do the voters want? And the answer comes to them loud and clear. They want big tax cuts; they want to keep and even add to the current spending goodies of the welfare-warfare state; and they also want a balanced budget to end inflation. Great, say the neopopulists, we'll give them all three. And so came the one specific Reagan proposal that has fired public support: the Kemp-Roth overall income tax cut of 30 percent over a three-year period. To hell with fiscal sobriety.

But, but... as Mary McGrory asked the Republican candidates in the Iowa debate, how can you offer the public three contradictory things: big tax cuts, balanced budgets, and maintaining government spending and services at current levels? And then came the magic answer, the panacea—the "Laffer curve." The Laffer curve, which can be explained to any congressman on a dinner napkin, states that if tax rates are cut, productivity and investment will increase to such an

extent that the supply of goods will increase and total tax revenues will actually rise. So presto, chango. The circle can be squared, and contrary to Milton Friedman, there is such a thing as a free lunch. Just call it the Laffer curve and "supply-side economics." Not only that: A tax cut will also cure the inflation problem, because the increased supply of goods will swamp any tendencies toward inflation.

This cheerful nose-thumbing at the economic establishment is calculated to drive all orthodox economists, including conservative Keynesians and Friedmanites, up the wall. For while tax cuts will undoubtedly raise productivity and supply, the question is, by how much? And it is downright bizarre to believe that a 30 percent cut in tax rates will at once raise tax revenues 30 percent, or that supply increases can offset the galloping expansion in the money supply.

Yet the real argument is not in the realm of economic theory. Corner a Lafferite and he will cheerfully admit that Kemp-Roth may well not increase revenues by 30 percent, but who cares? Why can't conservatives have a deficit for once, and let the liberals cope with it? To the arguments that the Laffer-curve approach is deceitful demagoguery and that the public will remember when the curve doesn't hold up, the neopopulists answer cheerfully: *Après nous le deluge*. In any case, the public will be so happy with the tax cut that they won't care about the Laffer curve any more. As Irving Kristol admits: "What if the traditional conservatives are right and a Kemp-Roth tax cut, without corresponding cuts in expenditures, also leaves us with a fiscal problem? The neoconservative is willing to leave those problems to be coped with by liberal interregnums. He wants to shape the future, and will leave it to his opponents to tidy up afterwards." In the long run we are all dead.

Both groups are right, and both are wrong. The Responsibles are correct that the neopopulists are being deceitful and demagogic, indeed irresponsible in the worst sense. But the neopopulists are right that the Responsibles are offering the public simply more of what it doesn't like now. Besides, as Parkinson's Law dictates, expenditures rise to meet income, so expenditures may very well have to fall if taxes are cut first. In any case, we have nothing to lose, since the burden of taxes is no better or easier, at the least, than the burden of inflation.

Which way will Reagan jump? Since the beginning he has been in the Laffer camp and has been championing Kemp-Roth. But the ouster of John Sears as campaign manager eliminated a key Kemp ally, and Sears's successor William Casey is a close friend and ally of William Simon. We can therefore expect a steady slide toward Respectability. While sticking formally to Kemp-Roth, which after all has long been his only specific economic policy plank, Reagan has already begun to fudge on the gold standard, which Laffer had earlier persuaded him to advocate. The gold standard would help check inflation and would be a significant step toward a free market in money, but nothing is more calculated to infuriate the Friedmanites and the conservative Keynesians, who all regard gold as a barbarous relic and wish to keep

total control of the money supply in the hands of the Federal Reserve System. Although he previously called for the gold standard, Reagan today says that first we have to stabilize inflation and the economy, since "gold is a kind of a wild card right now."

The knowledgeable, ultra-Responsible, and very antipopulist *Business Week* has suggested that George Shultz's April appointment as top economic coordinator for Ronald Reagan presages a Responsible transformation of Kemp-Roth. In the projected new program to be offered by Shultz and Walker, Kemp-Roth tax cuts are to be phased in over five rather than three years, and to be tied to gradual spending reductions and taken out of an expected federal surplus. And since any notion of a federal surplus is bound to be pie-in-the-sky, that should kill Kemp-Roth for good and all. So, with even the tax cut riddled by the Responsibles, we wind up with Reagan fully as flexible and as moderate on economic issues as any liberal might like.

What America needs right now is a President who is a militant hawk on freedom and big government and a realistic dove on war and foreign affairs. Calm and laid-back though he may be, Reagan offers us precisely the opposite. Such is the paradox of conservatism, and such is the paradox of Ronald Reagan in 1980.