How stronger is cheaper in Israel, by Gregg Easterbrook
Plus reviews by • Jonathan Alter • James Fallows
• David Ignatius • Joseph Nocera
• Thomas J. Peters • Emily Yoffe

THE REAGAN SCORECARD

STRIKE OUT ?

BASE HIT ?

HOME RUN ?
I. The Reagan Conservative Scorecard

"... the appointment of Caspar Weinberger as Defense secretary, and Weinberger's subsequent refusal to commit himself to a fixed spending boost, is a hopeful sign."


We didn't support Ronald Reagan in 1980, but we did have to acknowledge that a conservative president might bring about some badly needed reforms.

Some would be relatively painless for him: taking on the bloated civil service, for example. But would Reagan be conservative when it hurt? Would he get the corporations off the dole and attack waste and abuse at the Pentagon, where it is as debilitating as it is endemic? We drew up a sampling of such issues—a "Reagan scorecard"—to help our readers follow the action.

On defense in particular we felt reason for optimism. Reagan's new Secretary of Defense was, after all, the man who had been dubbed "Cap the Knife" as Nixon's OMB chief and had expressed skepticism regarding the Pentagon's appetite for our tax dollars.

Now the results are in. Overall, Reagan's conservatism has come down much harder on AFDC recipients than it has on, say, the owners of synfuel plants or his supporters among organized labor. The biggest surprise—and disappointment—has been defense. Washington has not seen such a proclivity to throw money at a problem since the salad days of the Great Society. As Gregg Easterbrook's article in this issue suggests, the result is not a better defense, but a weaker and more expensive one.

Eisenhower warned us. "Some day there is going to be a man sitting in my chair who has not been raised in the military services and who will have little understanding of where slashes in their estimates can be made," Ike wrote back in 1956. "I shudder to think of what could happen in this country."
Defund the Rich

"Income redistribution with a vengeance, but unfortunately in the wrong direction," was the way one writer in the mid-seventies described a federal program that subsidized the medical education of kids from wealthy families. The writer was not a welfare rights organizer. It was David Stockman, not yet a congressman, who observed in an article in *The Public Interest* (titled "The Social Pork Barrel") that most liberal social programs—from the farm program to aid to education—subsidized the middle class rather than the poor.

"The Social Pork Barrel" was on the mark, as far as it went. But something was lost in the translation of Stockman's ideals into practice. One reason was that medical students swing more weight than welfare mothers. Another was that Stockman worked for a president who didn't care much about the poor to begin with. The result is that, while Reagan has cut programs like AFDC and food stamps, most of the frivolous subsidies to the well-off remain.

Eliminate Impact Aid

Presidents since Ike have tried (and usually failed) to cut this federal subsidy to school districts “impacted” by the presence of large numbers of federal employees. It made a lot of sense when it helped poor rural school districts deal with the children of the thousands of servicemen thrust upon them by the construction of large military bases within their boundaries. But much of the money now winds up in communities that clearly don’t need it—for example, well-to-do Washington suburbs like Montgomery County, Maryland, and Fairfax County, Virginia. The program was whittled back in the seventies; Reagan cut it even further in 1981. But funding levels for these airports have quadrupled since Reagan took office.

Tamper (More) With Social Security

During the 1980 campaign, the disaster looming in the Social Security system was as unmentionable as a debauched aunt. Everybody knew about it and nobody would admit it was there. Reagan's solution was to appoint a bipartisan commission so that Democrats would have to take some of the heat for the inevitable cuts. One favorable result was that legislation was passed to tax half the Social Security benefits of upper-income retirees, thus establishing the principle that Social Security should be geared to the recipient's need (as should all government income supports).

But the step was far too timid. Only retirees with incomes of more than $32,000, for married couples—that is, those earning well over $10,000 more than the median income—would be subject
to the tax. An administration that has split hairs about whether working welfare recipients are "truly needy" seems perfectly willing to provide welfare—er, "insurance"—to people who demonstrate substantially less need. Indeed, when Donald Regan demonstrated interest in the idea of a means test for Social Security during a recent appearance on "Meet the Press," the White House quickly disavowed the idea (see James Fallows, "The Stoning of Donald Regan," June).

Actually, the only reason Roosevelt called Social Security an "insurance" system was to duck his critics, who were calling it "socialism." In reality it's a device for taking money from present workers to support retired ones. Fair enough. But by what standard can we justify a system that taxes the $14,000-a-year secretary with two kids and gives that money to a Malcolm Forbes?

Eliminate Postal Subsidies

It took courage for David Stockman to ask Congress to halve this $789 million "revenue foregone" budget item that gives bargain postal rates to nonprofit organizations, including a number of popular magazines. While there may be some argument for subsidizing those that otherwise really couldn't afford to publish, a big chunk of the postal subsidy today goes to hugely profitable publications like Smithsonian and National Geographic. Why should the taxpayer subsidize the postage of rich magazines that can boast to advertisers, as Smithsonian does, that their average reader earns $52,000 a year?

Another postal subsidy to discontinue is red-tag service that expedites delivery of publications like Time, Newsweek and The Wall Street Journal. Rather than charge these profitable publications the full price for overnight delivery, for which they currently pay a few pennies, the Postal Service plans to expand the number of eligible newspapers and magazines, while the rest of us pay $9.35 for similar assurance of fast service.

Kill The Synfuels Corporation

If there ever was a Carter program that the Reaganites should have wanted to kill, it was the Synthetic Fuels Corporation. Here was $88 billion—worth of government intrusion into the marketplace to subsidize the production of synthetic fuel that is too expensive and that we don't need (see "The Energy Crisis: How to End It," Gregg Easterbrook, October 1980). Even the most adroit tax lawyers would have trouble demonstrating that the recipients of this subsidy—Exxon, Tenneco, and others—meet the standard of "truly needy." Synfuels production would consume enormous amounts of water and threaten the air and land.

David Stockman saw the light, but in short order he was persuaded to ease up by people like Jim Wright, the House Majority Leader from oil-rich Texas, and Jim McClure, the Republican chairman of the Senate energy committee. The administration's conversion to synfuels was complete when Tenneco and other partners in North Dakota's Great Plains Coal Gasification Project—the largest synfuels undertaking—threatened to pull out if they didn't get another billion on top of the two they had already received. Ed Meese had a chat with Ed Noble, the Synfuels president, and a check for $790 million was on its way. (Noble was not exactly a disinterested party. At one point, 83 percent of the subsidies SFC had issued were to companies that did business with his family energy business.)

Reagan has since changed his tune on the Synfuels Corporation: expenditures are scheduled to fall by more than half. Congressional opposition was part of the reason, but more important was the fact that the oil companies were dropping out. With an abundance of real natural gas (the existence of which James Schlesinger, Carter's energy chief, had denied), nobody wants to bother with the expensive synthetic stuff. Now that this agency's superfluity has been demonstrated so clearly, we consider Reagan's failure to abolish it a defeat.

Crack Down On The Doctors

Now here's a dilemma for Ronald Reagan. Medical costs are out of control, taking about one dollar out of every ten we spend. Through Medicare, Medicaid, and the tax deduction offered for health insurance premiums, the federal government underwrites almost half the nation's $350 billion medical bill. If present trends continue, Medicare alone will be a trillion dollars in the hole by the year 2005.

It's not the bureaucrats who are running up the bill. It's the hospitals, drug companies, medical equipment suppliers, and most of all, the doctors, who prescribe the drugs and order the surgery. And most of these doctors—average in-
come, $99,500—are Republicans. So what do you do when you’re a Republican administration, torn between the deficit and your constituents in the AMA? You fudge.

Consider, for example, the administration’s plan for getting Medicare hospital costs under control. All hospital patients are now categorized according to one of 467 Diagnostic Related Groups (DRGs). Medicare will pay a set fee for treatments in each of these groups, instead of letting the hospitals run up the bill.

It’s a better approach—if universally applied. But doctors don’t have to accept such DRG-based payments as full compensation. They can, and usually do, bill their patients for more than Medicare allows. Even if that option were foreclosed, they could simply perform more procedures, or refuse to treat Medicare patients.

Then there’s the administration’s proposed “voucher” plan—a shot of the Milton Friedman approach. According to free-market theory, armies of voucher-wielding oldsters will be able to bargain down their hospital bills. But we already have the most competitive medical system in the world—and the most expensive. For one thing, comparison shopping is a bit difficult when you’ve just had a stroke. For another, people tend to go to the hospitals where their doctors practice. But more to the point, private hospitals “compete” already, and they haven’t shown themselves very efficient. A recent study found that investor-owned hospitals—the kind the Reaganites like best—ran up 8 percent higher costs (and charged 23 percent higher fees) than their nonprofit counterparts.

Such tinkering is doomed to fail, for a single reason: the “marketplace” doesn’t work unless you are the one who writes the bills. Doctors—like firemen, policemen, and others who protect our lives and society—provide such an important service that they possess the power to blackmail us, to force us to accept the terms (and fees) they dictate. As long as the “fee-for-service” system is left intact, these “reforms” will not get to the heart of the problem. The only way to do that is to put all doctors in the employ of the government; train them for free, pay them a reasonable salary, and tell them where they’re needed (see “Radical Surgery,” February 1983).

Is Reagan sympathetic to this? Is the Pope a Lutheran? Remember, this is the man who originally opposed Medicare as too “socialistic.” Consider what he did to the National Health Service Corps. Before he was elected, the Corps was paying for the education of some 6,500 doctors and health care professionals, at an average annual cost of about $10,000 each, in return for their agreeing to serve for several years in places where they are desperately needed. About 2,000 people entered the program each year. Mr. Reagan has cut this number to 150—and will likely reduce it to zero if he wins a second term.

Standing Up to Big Labor

Reagan did take on labor in a few instances—the PATCO strike being the most notable. We think Reagan was right to oppose PATCO’s preposterous demand for a wage increase of $10,000 across-the-board at a time when a GS-14 air traffic controller was making up to $53,000.

But before you conclude that Reagan is a fearless crusader against featherbedding and inflated wage scales, or that Mondale is the only candidate of special interests, read on.

Set Trucking Free

“Disastrous” was the way Teamsters President Jackie Presser described the partial deregulation of the trucking industry that occurred in the last year of the Carter administration.

Before deregulation the Interstate Commerce Commission had protected the trucking industry—and the Teamsters—behind a fortress of red tape. Would-be competitors had to apply for authority to haul each commodity over every route they wanted to drive. The big trucking companies kept employees at the ICC filing room to alert them to any potential competition, so they could file formal appeals that could drag on for months. Making matters worse, the established truckers had special immunity from the antitrust laws to fix rates on a regional basis, thus freeing them from rate competition as well.

Sheltered from life’s rigors, the Teamsters could demand just about any wage they wanted, which the trucking companies would pass along to their shippers. Moreover, the Byzantine route system—company X could haul running shoes (but not socks) from Portland to Carson City, but only by way of San Francisco—guaranteed plenty of extra driving.

The Carter people broke up this crazy arrangement, and the Teamsters are feeling it. With 50 percent more long-haul carriers, there is real competition, and in 1982 the union had to settle for a three-year wage increase that was only half the rate of inflation. Still, the Carter deregulation was
only partial. Small truckers continue to run a paperwork gauntlet, and companies can still fix some rates among themselves.

Who better than Ronald Reagan to cast such vestiges of government regulation out of the temple? But don’t forget which union supported Reagan in 1980, and signed off on the appointment of Nevada trucking attorney Reese Taylor as ICC commissioner. Don’t forget that presidential confidante Michael Deaver represented the California Trucking Association in his political consulting days. And don’t forget that when Reagan first came to Washington as president-elect, his first courtesy call was to—guess who?—Jackie Presser.

After Reagan took office, the Department of Transportation drafted a “Phase II” deregulation bill to do the job a conservative president presumably would want done. The White House sent it back to DOT for “further study.”
Clean Up Union Pension Funds

The Teamsters Central States Pension Fund, once a synonym for self-dealing big union bosses, is being cleaned up. The trustees now have no control over investments. They've even paid back $6.5 million in ill-siphoned gains.

This is a score for the administration, although the Carter people, not the Reaganites, started the prosecution. Possibly the administration was as interested in cleaning up Teamster President Presser, an ex-Central States trustee, as in cleaning up the fund itself. Presser, who must have a special in-box for subpoenas, delivered the union to Reagan in 1980, and is an occasional guest at the White House.

Sink Merchant Marine Subsidies

Americans were spending half a billion dollars a year to prop up the American shipping industry (for “national security” reasons) when Ronald Reagan came to power. Most of this money went to merchant seamen, whose union contracts, with their featherbedding agreements and high wages, put labor costs as much as five times higher than those of foreign-flag ships.

Reagan did freeze subsidies to shipbuilders — and then turned around and handed the shipbuilding industry contracts for 200 new vessels for his new “600-ship navy.” But for ship operators, and hence seamen’s unions, Reagan was very accommodating; he wants the unions to back him in 1984, as they did in 1980. First, he loosened the requirement that subsidized carriers buy American-made (and more expensive) ships. (This pleased the seafarers unions because it meant the operators for whom their members worked would not be under so much pressure to cut labor costs.) Then he granted ocean liner cartels increased immunity from antitrust laws.

Slice Davis-Bacon

Why would churches and other nonprofit groups try to avoid federal money when they are building low-income housing? Because of a law called Davis-Bacon, which requires that construction workers get top-dollar on projects using federal funds. This can increase wage costs on such projects by 25 percent or more.

Davis-Bacon was enacted during the Depression, when southern contractors roved the country with gangs of impoverished blacks, bidding a pittance on federal projects, which were the only ones around. The law effectively stopped this exploitation. But today, the main effect of Davis-Bacon is to pad the salaries of building tradesmen, who already make 50 percent more than other U.S. workers. That means fewer projects and fewer jobs. It also means poor people in federally sponsored housing pay higher rents. A ripe issue for President Reagan? You are forgetting about the Teamsters, who extracted from candidate Reagan a promise that Davis-Bacon would not be sliced. To the president’s credit, however, he did the next best thing — rewrite the regulations so that “prevailing wage” no longer means “very top wage,” thereby eliminating more than half the overcharge in the process, according to the Congressional Budget Office.

Push Youth Wage

No, it’s not the panacea for the nation’s two million-plus jobless teenagers (45 percent of them minority) that the president says it is. It’s not a substitute for the kind of broad-scale, WPA-style jobs program the nation desperately needs. And when the president suggests it, an attack on the minimum wage itself lurks just offstage in the rhetorical wings.

Still, the president is right in proposing a lower minimum wage for teenagers during the summer months. There are lots of shopowners and others who would love extra help for the summer but can't afford it at the full minimum wage. Moreover, teenagers often don't have the skills to merit that amount.

The president tried once, in the Employment Act of 1982, to get a youth subminimum wage. He's trying again this year with the hyperbolically named Youth Employment Opportunity Wage Act, which would shave 85 cents off the $3.35 minimum wage for teenagers working from May 1 through September 30. This time the president stands a better chance. Minorities are beginning to question the privileges of organized labor, and both the National Council of Black Mayors and the National Association of Minority Contractors have lined up behind the bill.

The president's case would be a lot stronger if he expanded the Summer Youth Employment Program, which gave jobs to 700,000 last summer; instead, the president wants to cut it by 12 percent. Since a portion of any new subminimum wage jobs would go to clean-cut kids from the...
suburbs instead of teenagers from the South Bronx, the need for a targeted jobs program is imperative.

Still, the bill can't do much harm, even as it stands. And isn't it better that at least some kids get jobs this summer instead of hanging out during those steamy months?

Taming a Bloated Bureaucracy

Ronald Reagan was going to run the government "like a business." But he cut the Internal Revenue Service's enforcement budget—the one government expenditure that actually makes money. He let James Watt practically give away government-owned coal and oil reserves. And his Department of Energy offered enriched uranium to the nuclear industry for $6.7 billion less than what it costs the government to produce it. These examples suggest that the president is a little weak on certain business concepts, such as "accounts receivable."

Reagan's record on proposing reforms for the bureaucracy is better, although getting those reforms enacted has been a problem—to a great extent, because of the power of the federal employee unions. But the administration's own antigovernment ideology is also to blame. Just as few people in the Defense Department and the Pentagon would trust, say, George McGovern to reform the military bureaucracy, few bureaucrats in the nonmilitary federal government, let alone the public at large, ever believed Ronald Reagan's ultimate motive for reform was to make the government work better.

Reform The Civil Service

First, the good news: Ronald Reagan has reduced the size of the federal bureaucracy by about 25,000. Now for the bad news: that is less than 1 percent of the federal work force, and the cuts were made indiscriminately.

Reagan and his controversial head of the Office of Personnel Management, Donald Devine, deserve some credit for trying to get Congress to approve a merit pay program for all federal employees, but the Senate Civil Service Committee let the unions rewrite the bill to their liking before the House committee killed the idea outright. The administration also asked, and didn't get, permission from Congress to change the way RIFs ("reductions in force") are carried out, by placing greater emphasis on performance.

In the fifties, when Eisenhower wanted to fire 100,000 federal workers, he just issued pink slips. But Reagan had to let a federal employee whose job was eliminated "bump" another of lesser seniority, and so on down the line, forcing out the young (however able) in favor of their elders (however inept).

The government employees' unions proved a powerful opposition to sensible reform, but they were helped in whipping up the fury of their members by Reagan's undisguised contempt for the idea of government service. As he put it in his inaugural address, "Government is the problem." Had he shown a real desire to make the government work better, he might have achieved more substantial reforms.

Retire Early Retirement

Military personnel are eligible for retirement after 20 years of service, leaving us with many "retirees" who haven't sprouted a single grey hair and are happily collecting their pensions as they move on to second careers. As Phillip Keisling pointed out in these pages a year ago ("Soldiers of Good Fortune," May 1983), early retirement in the military has proven to be not only a tremendous drain on the Treasury—the military retirement system is currently operating at a deficit of $600 billion—but also a major reason why the military has a hard time holding on to some of its most skilled personnel. We could save billions by raising the minimum from 20 to 30 years, but Ronald Reagan won't touch this one.

Reagan has made a better effort on the civilian side. Devine asked Congress to raise employee contributions to the federal employee retirement fund from 9 percent to 11 percent, to base pensions on an employee's best five salary years rather than his best three, and to raise the minimum retirement age from 55 to 65. He lost not only in the Democratic House, but also in the Republican Senate. He had better luck in getting federal employees into the Social Security system, but even this was only a partial victory—it will apply only to new employees (see "Hatch 22," Teresa Riordan, November 1983). For the most part, the federal system of retirement remains out of control.

Pop The Colas

A COLA is, of course, shorthand for cost-of-living adjustment. Given the inflationary anxieties of America in the seventies, it seemed
reasonable to offer these adjustments to federal retirees. The problem is that within a few years this automatic feature resulted in more than 100,000 retired workers getting more than they did working for the government. A salve for inflation has become a cause.

Back in October 1980 Reagan told the National Association of Retired Federal Employees that he would not eliminate their semi-annual COLAs. Stockman went after them anyway, and now COLAs are given annually. This is one campaign promise we were glad to see Reagan renege on; he should have abolished them altogether.

End The "Comparability" Scam

When the government compares the salaries it pays with those paid by the private sector for the purpose of determining federal workers' "comparability" raises, it ignores the federal employees' lavish pensions. The comparability measure also ignores the difference between what federal workers do and what their inflated job descriptions say they do, and it is based on only the highest-paying 3 percent of American business organizations.

So while federal workers complain that they are "officially" underpaid by 18 percent, the average salary (not counting benefits) of the Postal Service's 600,000 employees was more than $22,000 last year. This year more than 400,000 government workers will make more than $30,000, not counting employees of the Postal Service, the military, or the intelligence agencies. Underpaid? Ask the ten qualified citizens who, on average, apply for each federal government job opening.

Jimmy Carter smelled a rat in these "comparability" ratings and began gathering the data to make more sensible comparisons with private sector salaries. Reagan's bureaucrats are still working on it. They ought to finish any decade now.

Replace The M-1 Tank

Reagan has ordered these tanks for $2.7 million each. Now let's just hope he doesn't have to use them. The M-1 is an unbelievable gas guzzler; its 60 tons are too heavy for many bridges in the European countryside it's supposed to protect; and at 1800 degrees its exhaust is hot enough to set underbrush and infantrymen on fire, not to mention that it makes itself a perfect target for Soviet heat-seeking missiles. Worst of all, in a series of Army tests in 1982, the tank's dust-

Buy Small Subs

You're the Soviet military officer in charge of tracking down our nuclear submarines in time of war. Which would you rather Reagan chose: a swarm of light, mobile, missile-bearing subs or a fleet of 20 that were half as big as a World War II battleship, made lots of noise, and half of which would be in for repairs at any given time? If you chose the big mothers, then you understand why the Trident is good for the Russians. Why Reagan has endorsed these $2 billion Carter mistakes is another question. He could, for example, have gone to the Shallow Underwater Missile (SUM), which was developed back in 1978. These proposed low-cost diesel-powered subs would have been one-fortieth the size of the Trident and about one-tenth the cost. They could have been spread so widely as to be virtually invulnerable to a Soviet first strike.

No chance of that now. Not only did Reagan endorse Carter's Trident, he's committed $92 billion to Trident II into the 1990s.

True Concern for Defense

Ronald Reagan's enthusiasm for bureaucratic reform doesn't extend to the military bureaucracy. Indeed, his defense budget requests—more than $300 billion for next year, almost $400 billion in 1987—seem to grow right along with his faith in whatever the military brass tells him. Yet we're still reading stories about faulty weapon systems and cost overruns in the newspapers. Even the hawks at the Heritage Foundation have found themselves protesting the defense community's dangerous tendency to saddle us with budget-busting high-tech weapon systems that don't work.

So it's probably safe to say the president didn't read our "35 Ways to Cut the Defense Budget" (April 1982). In that article we suggested that the Pentagon stop procurement of the MX missile, the B-1 bomber, Nimitz-class aircraft carriers, AH-64 Attack helicopters, Bradley Fighting Vehicles, and a host of other faulty and outlandishly expensive weapons—and start supplying our forces with the sensible and effective weapons they need. Here are a few more suggestions Reagan didn't take us up on.
sensitive engine and transmission often broke down. For the price of each of these lemons the president could have purchased three of the more reliable M-60s.

Cancel The F-18

This is the plane with the $13 billion cost overruns that the Navy (under Carter) opposed; that the Marines (under Carter and Reagan) declined to buy; and that David Stockman, during the summer of '81, tried to convince President Reagan to cancel. It's also a tremendous pork-barrel project, built by three different contractors—McDonnell-Douglas, Northrop, and General Electric—all with the congressional contacts to keep on building.

The reason the F-18 is such a costly dud is that Carter's defense secretary, Harold Brown, planned it with MBA notions of efficiency. It was originally intended to be a light-weight, low-cost alternative to the Air Force's F-15 fighter. But much as Robert McNamara did with the TFX, Brown decided to make the plane do multiple duty and turned it into a fighter and light attack plane for the Navy and the Marines—four functions in all. The resulting plane, at an exorbitant cost of $27 million each, could perform none of its functions as well as the F-15 it was to replace.

Reagan should have canceled the F-18, spent half the money on more A-7s for the Navy and AV-8 Harriers for the Marines, and used the other half to cut the deficit.

Disband The Central Command

Carter called it the "Rapid Deployment Force." Reagan calls it the "Central Command." But it's still "Son of Iranian Rescue Mission"—the same bureaucracy-intensive reorganization that we described in our original scorecard.

The ostensible purpose for pouring billions into this new command structure—which just aggravates the military's legendary interservice rivalries—is to protect access to Persian Gulf oil. But why should the United States, which gets only 8 percent of its oil from the region, be paying for protection of this oil in the first place? What about Japan and Western Europe, which depend on the Gulf for about 75 percent and 50 percent of their oil, respectively?

Obviously the U.S. needs a crack force ready for deployment anywhere in the world. As our enemies know well, we already have one—the Marines. Reagan should disband the Central Command and spent the money instead on a strengthened Marine Corps, including procurement of more weapons like the A-10 close-support planes, which the Marines really need.

Lean On NATO

After World War II, America decided to help its European allies (including newly-formed West Germany) maintain a common defense against the Soviets. Since we had the money, we paid most of the bill.

It worked so well that soon Europe was prospering. Freed of the need to provide for most of its own defense, Europe outpaced America by building better cars and machinery than we did. Still, we kept paying for NATO, and today we devote twice the share of our economy to defense that our NATO allies (averaged) do—$127 billion to the defense of Europe and $47 billion to defend Asia.

As an undisputed hardliner, Reagan could have taken on NATO in a way liberals would never dare. And conservative intellectuals like Irving Kristol and the Hoover Institution's Melvin Krauss would have backed him up. Even that inveterate Europhilic Henry Kissinger recently suggested that America might pull 50 percent of its troops out of NATO to give our allies a little incentive to do more for themselves.

Instead, Reagan boosted by 20 percent the share of our GNP going to defense and continued to devote the usual third of that to our allies.

Cutting Red Tape

Anyone who has endured an OSHA inspection, or filled out an income tax return recently, knows that the government can be a genuine nuisance. So we understand where the regulation-haters in Reagan's camp are coming from. We even applaud them for abolishing the rule that required buses and subway entrances to have special lifts for the handicapped—an expense that was far more cumbersome than having subsidized shuttles for those who need them.

But the Reagonites went further. Their operating premise was not how much regulation we need, but how much we can get rid of. (Zoning regulations in wealthy suburbs somehow escaped their critical gaze.) This attitude was typified by the Presidential Task Force on
Regulatory Relief, which the president appointed after his election. Counsel to the commission was one Boyden C. Gray, a Washington lawyer who numbered the American Mining Congress and the auto industry among his clients. The administration proceeded to cut back on mine inspections—with a 25 percent increase in deaths due to mine cave-ins—and tried to abolish lifesaving requirements for airbags and automatic seat belts.

This rush to deregulate sometimes angered those members of Reagan's own constituency—big business—who had gone to some expense to comply with various regulations. For example, after both Exxon and Bacardi had spent a bundle to comply with water quality regulations, the EPA pulled the rug from beneath them by rolling the regulations back. The administration's emphasis on "voluntary compliance" showed contempt for companies that obeyed the law by not making sure their competitors obeyed. At the very least you might expect a conservative president to deregulate in a way that minimized paperwork. But the administration has used elaborate "cost-benefit analyses" as a means to clog the regulatory process.

The one case of regulators run amok that Reagan truly needed to address was the Federal Reserve Board. The Fed's tight money policies have held the whole economy hostage. Reagan should have listened to conservative economists like Milton Friedman and asked Congress to end the Fed's independence. He didn't have the nerve. Besides, it will be nice to have the Fed to blame if the economy is sputtering this fall.

**Check the Banks**

Here's one on which Reagan did as we suggested. We were wrong, and so is he.

Deregulating interest rates seemed like a great idea. In the past, people with a lot of money could buy Treasury bills at high market rates, while you and I got a measly 5½ percent on our passbooks. Why shouldn't we get a high rate like the big boys?

Well, we got it. Carter started it and the Reaganites kept the ball rolling. It was almost euphoric at first. Then the truth hit home. The interest rates we were paying to borrow weren't coming down because the rates we were receiving on our deposits were so high. It's more important that producers have access to money at reasonable rates than that money earn more interest. We would reimpose the interest rate ceilings and apply them to money market funds, too, so there would be no unfair advantage.

Of even greater importance is the question of deregulating the banks so they can go into other businesses. On this one, Reagan's error is his own.

Over the past several years the safeguards Congress erected around the banks to prevent a repeat of the Great Crash have been falling. Banks are getting into sideline ventures—as they did in the twenties—and have figured out ways to operate across state lines as well. Reagan hasn't actually deregulated the banks—the banks have been using loopholes in the law. But his administration has been acting as cheerleader and has been pushing a bill sponsored by Senator Jake Garn that would leave the banks free to do just about anything they want.

The travails of Continental Illinois Bank in Chicago should be a warning about giving banks too broad a leash. It should be a warning to taxpayers as well. Despite the administration's talk about deregulation and free markets, when Continental Illinois tottered, it was the federal government—which means the taxpayers—who came to the rescue.

**Enterprise and Productivity**

Imagine that Ronald Reagan had lost the 1980 election to Jimmy Carter and it was Carter who had given us the economic policies of the last four years. How would Ronald Reagan, back on the campaign trail in 1984, rip apart the last few years of "Carteromics"?

He might begin by attacking the deficits; he could simply reread his 1980 campaign speeches. He could go on to dismiss the current demand-fed recovery as the result of those massive, Keynesian, and typically Democratic deficits. He'd point to the epidemic of business failures, the record-high real interest rates and trade deficits, the lagging productivity and capital formation, the drop in the savings rate—and predict economic doom.

Of the current spate of mergers, acquisitions, and leveraged buyouts, he could say that, like adultery and illegitimate children, they may be an ineradicable part of life, but a tax code that rewards such behavior is clearly wrong. In a burst of conservative indignation Reagan might even proclaim that all manipulations of the tax code, such as accelerated depreciation and "tax leasing," are inherently inefficient because they distort investment decisions in the private sector.

The economy, after all, was Reagan's issue of
issues, the sun around which everything else revolved. To critics who derided the cruelty of his budget cuts, he would respond, in effect, “I am going to create prosperity and jobs. Then there won’t be a need for these handouts that you are so enamored of providing.”

Reagan was right to put enterprise and production—rhetorically, at least—at the center of his program. For more than a decade, the prevailing liberalism had taken the nation’s productive machine for granted and had set about the pleasant task of redistributing the fruits and protecting workers and the public from undesirable offshoots, like pollution. The machine itself was permitted to erode.

What’s that? You’re not working any harder today than you were before the new tax cuts? And you used your tax cuts to pay some bills or get the car painted rather than to buy newly issued stock? That’s what most people did. It’s why we wound up spending our way to recovery, just like the Democrats used to do.

But the reason Reagan’s program didn’t pan out went deeper. The liberals made much of the way the tax cut favored the rich. Unfair, yes. But it wouldn’t have been so bad if those rich folks had produced that promised sea of investment that was going to lift everyone’s ships.

The problem was that Reagan’s tax cuts were the mirror-image of what Stockman had dubbed “social pork barrel” liberalism: they gave too much where it was not needed in order to provide too little where it was. The 29-percent cut in the top rate on investment income and the drop in the top rate on capital gains to 20 percent didn’t apply just to productive investments like new stock issues. They applied as well to tax shelters, race horses, real estate speculation, antiques—all the pecuniary diversions that cause our economy to go nowhere. The Reaganites boasted that lower tax rates would diminish the use of tax shelters, but Business Week predicted, late in 1981, that Reagan’s plan would give the shelter business a “hefty booster shot.” Sure enough, tax shelter filings at the SEC leaped more than 50 percent—from $5.5 billion in 1982 to $8.4 billion in 1983. Meanwhile, savings declined.

There was more pork-barreling on the corporate side. The president gave out tax breaks that would amount to half a trillion dollars over the decade (Congress halved that the next year), with 80 percent of it going to the largest .1 percent of all corporations. The result: we got takeover battles and companies selling tax breaks to one another because they had more than they could use. For the amount he gave away to the behemoths, Reagan could have eliminated taxes entirely for the vast majority of smaller companies, which, as is well known, provide most of the new jobs and innovation and should be the first concern of a conservative, enterprise-minded president.

The tragedy is that Reagan had a golden opportunity to gain the kind of tax reform a true conservative should want—an end to all loopholes and deductions, with a corresponding reduction in rates. This would both end the economic engineering that the government conducts through the tax laws and relieve us all of the chore—and economic drain—of acting as accountants for the federal government. The revenues he gave up in “Kemp-Roth” tax cuts he could have used to ease the pain inherent in a transition to a simplified tax. The mere fact that lawyers and accountants would have hated it sug-
gests what a boost to productivity a change to a simplified tax might bring.

**Get Energy Off the Dole**

If Reagan were a real conservative, what would he do about energy?

First, he would end all subsidies. Second, if he did get the government involved he would seek to maximize opportunities for individual entrepreneurs. A defense-minded president would seek a diverse energy system with many small units rather than one offering a few inviting targets for enemy missiles. He would also (though reluctantly) establish standby gas rationing as security against blackmail in the Middle East. He'd stress conservation, which involves old-fashioned thrift and a lessening of me-generation self-indulgence. At the very least he'd promote energy sources that could hack it in the market.

More Reagan liberalism to report. He preserved billions in tax breaks for oil companies, kept the Synthetic Fuels Corporation subsidy (see above), and went on such a spending spree for nuclear energy that the arch-conservative Heritage Foundation called him “virtually a socialist” in this regard. Yet it was free market with a vengeance for solar, conservation, and other alternatives that offer opportunities for entrepreneurs and that are much harder for the Russians to knock out. There's no standby rationing. Conservation he spoke of as almost immoral. As for cutting it in the market, the words to remember are Seabrook and WPPSS (“Whoops”).

OK. Let's talk gas, which is clean, abundant, and our best chance to break OPEC for good. Federal price controls have kept production down, and controls on newly discovered gas expire in 1986. Heck, says Reagan, let's take price controls off all gas, existing wells included. This will turn the gas fields into rabbit warrens of production. We'll get so much, prices will come down.

Hate to be a kill-joy, but Reagan isn't thinking about (or perhaps he is) the oil majors, who control about half the natural gas. Through such things as financial interlocks with pipelines and arrangements by which they market gas for independent producers, the majors have a good
deal of control over the price for which decon- controlled gas would sell, and they aren't awfully inclined to make gas so cheap that they can't sell their oil. Since these majors control about 70 percent of the "old" gas, Reagan's plan would mean perhaps $70 billion to $100 billion in their pockets.

If Reagan were really thinking about the country, he'd let the controls on new gas expire and leave controls on old gas in place. He'd push to repeal the remaining provisions of Carter's hare-brained Fuel Use Act, which actually pressured industry not to use gas. (To his credit, Reagan gained repeal of part of the act already.) And Reagan would also seek repeal of the fuel adjustment clause, which enables your gas company to pass along fuel price increases to consumers, no questions asked.

II. The Reagan Liberal Scorecard

As readers of this magazine know, we do not disparage enterprise. To the contrary, we see it as the best engine of economic health, and a source of creativity and freedom in the national life. But the president and those around him elevate acquisitiveness into an agency of the divine. If we just cut the taxes and get rid of the regulations, it will unleash the Force, and everything will work out for the best.

This view of the world is well suited to a president who likes his afternoon nap, and to a class of individuals who share their righteousness over dinner at the club. But anyone whose life touches beyond places like Pacific Palisades and the banquet rooms of the better hotels understands that enterprise, important as it is, leaves many needs untouched. Sometimes it creates those needs.

The modern liberal tradition began with this recognition. It saw government as a means of providing what enterprise alone does not: fair play between, say, employers and employees; equality of opportunity among those in different life circumstances; a commitment to service that rises above the acquisitiveness to which our country is prone; and a way to prevent those with economic power from threatening the health and safety of the rest of us.

The Reaganites were right about one thing. After 20 years of reign, liberals had become defenders of governmental programs and their constituencies. They had lost the ability to distinguish entitlement from need and had come to view automatically any cut in spending as an affront to the unfortunate. The Reaganites were right as well to raise the issue of voluntarism. In their eagerness to create a bureaucracy to correspond to every problem, liberals had forgotten that voluntary helping is still the best kind.

But the Reaganites didn't reject just the excesses of liberalism. They rejected the idea of a constructive role for government, period. Fairness would take care of itself; who are we to question the invisible hand, anyway? Equality was just more meddling in private decisions. And while they spoke of volunteerism and service, it sounded suspiciously like a romanticized cop-out. Certainly the president and those close to him had not set much of an example in their lives prior to Reagan's victory, nor have they in the policies they've promoted since. None of this should be surprising. But it is helpful to review the record, if for no other reason than to consider what an alternative might be like.

Education

Public education has been the nation's single largest commitment to equal opportunity, and it's failing. We need better compensation for good teachers, and an end to rinky-dink certification requirements that cause bright people to go into other professions. We need a curriculum that is more stimulating and demanding. More than anything, we need a national leader to rally the nation to the cause.

Instead, Ronald Reagan tried to rally us behind his proposal to destroy the public schools through tuition tax credits. Reagan's other great contribution to the education debate—besides budget cuts—was his support of prescribed prayers for school kids, which will do wonders for those struggling to escape the poverty of the South Bronx.
Health and Safety

Though traditionally a liberal concern, one might have expected the president to do better here. He says that government should do only what individuals can’t do for themselves. Have you tried lately to test the chemical contents of the food at the supermarket or the safety of the chemicals to which you are exposed at work?

Instead, the administration has shown the kind of disregard for human life that gives capitalism a bad name. It tried to derail the passive restraint requirement for cars. It opposed labels showing the salt content of food and whether meat contains ground up bones (even though an informed consumer is key to free market theories). It held up regulations regarding infant formula contents amidst reports of dangerous nutritional deficiencies among prominent brands. It expedited approval of new drugs like Oraflex, which was later connected with over 40 deaths in Britain.

In the workplace the administration showed more concern with protecting employers from OSHA inspectors than in protecting workers from hazards. It dragged its feet on the deadly fumigant EDB and had to be pushed and shovelled into approving a tougher rule relating to asbestos, which is linked closely to cancer.

Civil Rights and Equal Opportunity

This is another area in which one would expect a Republican president to get at least a passing grade. The Party of Lincoln, after all. Moreover, civil rights are also a way of helping people gain entrance to the economic mainstream, where they can then provide for themselves.

Yet it was this area that seemed to provide the clearest window to the administration’s id. Remember the proposed tax exemption for “seg schools”? The initial opposition to the Voting Rights Act? The 15-percent cutback in civil rights enforcement by federal agencies? Justice Department civil rights chief William Bradford Reynolds has reversed the department’s prior policies in every area.

Similarly, the administration has adamantly opposed the Equal Rights Amendment and wants to deny women the right to choose whether to have a child. Almost 46 percent of mothers with children under three are working, and by 1990 one-half the country’s preschool children will have a mother who works. Yet the administration has cut programs from which day care is funded by 20 percent.

Income Support

Here the purpose should be to end welfare for the well-to-do (more than $10 billion a year in Social Security goes to households with incomes of more than $25,000 a year) while giving more help to those in real need (one-third of elderly single women get by on less than $4,000 a year). The answer is to unify all income support programs—Social Security, welfare, unemployment, and veterans compensation—into one program of insurance against need. A work requirement would apply but not to the retired or to women with preschool children. This change should of course be phased in with due regard to the expectations of older people who have made their plans on the basis of existing programs.
Bring Back The WPA

Reagan wasn't wrong in saying that a strong economy is the best way to help the poor. What was hard to take was the hypocrisy. Poor people were admonished to pull themselves up by their bootstraps, while people making more than $200,000 a year got $17,403 in tax cuts for exerting no extra effort at all.

One way to truly help those able to work—and to help the country as well—is to bring back the WPA. (See Timothy Noah, “Bring Back The WPA,” September 1982). Remember the nation’s one-trillion-dollars-worth of sagging “infrastructure”? You haven’t read about it lately, but it’s still there, a time bomb under the national economy. Repairing the federal highway system will require 250,000 people a year for the next decade. The nation’s largest cities will have over a hundred billion dollars of water works repair over the next 20 years.

What better way to employ the 8 percent of the work force (16 percent among blacks) that is out of work?

Reform American Capitalism

Reagan thinks he can solve our economic problems with tax cuts and less regulation, but these don’t begin to reach the underlying problems of American capitalism. Those problems can be summarized as The Sucker Factor.

Too often our free enterprise system says to the good guy, “You’re a sucker.” If you are a worker, you’re a sucker to take a wage cut, however essential it may be, if it produces greater returns for the managers and owners. If you are a manager, you’re a sucker to think of the long-range interests of your company when promotions and bonuses—as well as the regard of Wall Street and your shareholders—are based on your company’s short-term profits. And if you are an owner, you’re a sucker to make health and safety improvements that could drive your costs above those of your competitors.

The sucker factor can be eliminated. Here’s how. Health and safety regulations must be evenly and fairly applied so that all the companies in an industry are burdened equally. Family and worker ownership should be encouraged so companies are free to do what is best for themselves and their communities in the long run. Workers who own stock will accept short term wage cuts because they know they will share in the resulting profits. National economic policies should specifically encourage long-term investment in new plant and equipment. We once developed a policy for long-range investment in private home construction that was revolutionary. We can do the same for industry.

Reagan has done none of these things.

Little in the preceding would dispute the widespread belief that Ronald Reagan is the president of the wealthy. But what about the country? We would hope that even the wealthy would think of that.

Reagan has made some worthy attempts to reform the civil service and get a few interest groups off the dole. But what he’s cut in subsidies to the well-off he’s given back in tax cuts many times over. Whatever waste he’s eliminated in social programs he’s multiplied in defense. He has pandered to selfishness and self-pity. His administration has the soul of an accountant, which is not adequate to the challenges ahead.

The likely alternatives leave something to be desired. But another four years of Reagan would leave even more.