Epilogue:

The Triumph of Politics

"You ain't seen nothing yet." The White House made that its official campaign slogan for 1984. When it did, I knew that my own days were numbered, and that even the reluctant loyalty I had maintained during the long battle to reverse the President's tax policy was no longer defensible. Now I had to resort to out-and-out subversion—scheming with the congressional leaders during the first half of 1985 to force a tax hike. But that failed too, leaving me with no choice but to resign in the knowledge that my original ideological excesses had given rise to a fiscal and political disorder that was probably beyond correction.

Politics had triumphed: first by blocking spending cuts and then by stopping revenue increases. There was nothing left to do but follow former Governor Hugh Carey's example and head out of town, whupped.

That the politics of American democracy made a shambles of my anti–welfare state theory I can now understand. Whatever its substantive merit, it rested on the illusion that the will of the people was at drastic variance with the actions of the politicians.

But the political history of the past five years mostly invalidates that proposition. We have had a tumultuous national referendum on everything in our half-trillion-dollar welfare state budget. By virtue of experiencing the battle day after day in the legislative and bureaucratic trenches, I am as qualified as anyone to discern the verdict. Lavish Social Security benefits, wasteful dairy subsidies, futile UDAG grants, and all the remainder of the federal subventions do not persist solely due to weak-kneed politicians or the nefarious graspings of special-interest groups.

Despite their often fuzzy rhetoric and twisted rationalizations, congressmen and senators ultimately deliver what their constituencies demand. The notion that Washington amounts to a puzzle palace on the

Potomac, divorced from the genuine desires of the voters, thus constitutes more myth than truth. So does the related proposition eloquently expressed in the editorial pages of *The Wall Street Journal.* Somehow it manages to divine a great unwashed mass of the citizenry demanding the opposite of the spending agendas presented by the Claude Peppers, the homebuilders' lobby, and the other hired guns of K Street.

But those who suggest the existence of an anti-statist electorate are in fact demanding that national policy be harnessed to their own particular doctrine of the public good. The actual electorate, however, is not interested in this doctrine; when it is interested at all, it is interested in getting help from the government to compensate for a perceived disadvantage. Consequently, the spending politics of Washington do reflect the heterogeneous and parochial demands that arise from the diverse, activated fragments of the electorate scattered across the land. What you see done in the halls of the politicians may not be wise, but it is the only real and viable definition of what the electorate wants.

I cannot be so patient with the White House. By 1984 it had become a dreamland. It was holding the American economy hostage to a reckless, unstable fiscal policy based on the politics of high spending and the doctrine of low taxes. Yet rather than acknowledge that the resulting massive buildup of public debt would eventually generate serious economic troubles, the White House proclaimed a roaring economic success. It bragged that its policies had worked as never before when, in fact, they had produced fiscal excesses that had never before been imagined.

The brash phrasemakers of the White House had given George Orwell a new resonance—and right on schedule. In 1984 we were plainly drifting into unprecedented economic peril. But they had the audacity to proclaim a golden age of prosperity.

What economic success there was had almost nothing to do with our original supply-side doctrine. Instead, Paul Volcker and the business cycle had brought inflation down and economic activity surging back. But there was nothing new, revolutionary, or sustainable about this favorable turn of events. The cycle of economic boom and bust had been going on for decades, and by election day its oscillations had reached the high end of the charts. That was all.

To be sure, credit is due where it is deserved. Paul Volcker will surely go down as the greatest Federal Reserve Chairman in history for the masterful and courageous manner in which he purged the American and world economy of runaway inflation. This success turned out to require the traditional, painful, costly cure of a deep recession, but it took all that Volcker brought to the task—a strong will, an incisive mind, and a towering personal credibility—to see it through.

There is also little doubt that Volcker's feat would not have been possible without Ronald Reagan's unwavering support during the dark days of 1982. The President stands almost alone among Washington's current politicians in his instinctive comprehension that inflation is a profoundly destructive phenomenon. He has often been misled by the mumbo-jumbo of his advisers. But when it counted, the President gave Volcker the political latitude to do what had to be done. It was a genuine achievement.

Unfortunately, Volcker's hard-won victory was not what the White House media men had in mind when they proclaimed that "America is back." They were boasting of something far more grand: that the business cycle itself had been vanquished and that the nation had entered an era of unprecedented economic growth and wealth creation. As they had it, profound new possibilities for economic performance and social progress over the long haul had now been guaranteed by the policies in place. It sounded too good to be true and it was.

"You ain't seen nothing yet" was to have unintended, ironic meaning. It pointed to a frightful day of reckoning, a day that will reveal just how arrogant, superficial, and willfully ignorant the White House phrasemakers really were.

By the end of 1985 the economic expansion was three years old and the numbers demonstrated no miracle. Real GNP growth had averaged 4.1 percent—an utterly unexceptional, prosaic business cycle recovery by historical standards, and especially so in light of the extraordinary depth of the 1981–82 recession. The glowing pre-election GNP and employment numbers, therefore, had manifested only the truism that when the business cycle turns down, it will inevitably bounce back for a while.

Still, the White House breastbeating had to do with the future, and that depends upon the fundamental health of the economy and the soundness of policy. Yet how can economic growth remain high and inflation low for the long run when the administration's de facto policy is to consume two thirds of the nation's net private savings to fund the federal deficit?

The fundamental reality of 1984 was not the advent of a new day, but a lapse into fiscal indiscipline on a scale never before experienced in peacetime. There is no basis in economic history or theory for believing that from this wobbly foundation a lasting era of prosperity can actually emerge.

Indeed, just beneath the surface the American economy was already being twisted and weakened by Washington's free lunch joy ride. Thanks to the half-revolution adopted in July 1981, more than a trillion dollars has already been needlessly added to our national debt—a burden that will plague us indefinitely. Our national savings has been squandered to pay for a tax cut we could not afford. We have consequently borrowed enormous amounts of foreign capital to make up for the shortfall between our national production and our national spending. Now, the U.S. economy will almost surely grow much more slowly than its potential in the decade ahead. By turning ourselves into a debtor nation for the first time since World War I, we have sacrificed future living standards in order to service the debts we have already incurred.

Borrowing these hundreds of billions of dollars has also distorted the whole warp and woof of the U.S. economy. The high dollar exchange rate that has been required to attract so much foreign capital has devastated our industries of agriculture, mining, and manufacturing. Jobs, capital, and production have been permanently lost.

All of this was evident in 1984, and so was its implication for the future. We had prosperity of a sort—but it rested on easy money and borrowed time. To lift the economy out of recession against the weight of massive deficits and unprecedented real interest rates, the Fed has had to throw open the money spigots as never before. This in turn has stimulated an orgy of debt creation on the balance sheets of American consumers and corporations that is still gathering momentum today. Its magnitude is numbing. When the government sector's own massive debt is included, the nation will shortly owe $10 trillion—three times more than just a dozen years ago.

One thing is certain. At some point global investors will lose confidence in our easy dollars and debt-financed prosperity, and then the chickens will come home to roost. In the short run, we will be absolutely dependent upon a $100 billion per year inflow of foreign capital to finance our twin deficits—trade and the federal budget. Faced with a sinking dollar, the Fed will have no choice but to suddenly and dramatically tighten monetary policy, forcing up interest rates to attract the foreign savings needed to underwrite our lavish current spending.

This action will cause a recession, but this time neither Paul Volcker nor Ronald Reagan will have the wherewithal to stay the course. American politics will resound with the pleas of debtors demanding relief in the form of out-and-out reflation. Since our balance sheets already reflect the highest ratios of debt in peacetime history, there will be no margin at all to weather an interruption of cash flow: not at the federal level, where we are borrowing three times more relative to GNP than at the comparable stage of any previous cycle; nor at the corporate and household level, where debt service relative to income has soared off the charts.

The clock is thus ticking away inexorably toward another bout of inflationary excess. If we stay the course we are now on, the decade will end with a worse hyperinflation than the one with which it began. Indeed, the increased fragility and instability of the global economy, along with still fresh memories of the debauched financial assets of the 1970s, will make this inflationary cycle even more violent and destructive.

One reason I plotted to raise taxes in 1985, then, was to help correct an economic policy course that was leading to long-run disaster.

But there was also another, more compelling reason. As the original architect of the fiscal policy error now threatening so much grief, I was appalled by the false promises of the 1984 campaign. Ronald Reagan had been induced by his advisers and his own illusions to embrace one of the more irresponsible platforms of modern times. He had promised, as it were, to alter the laws of arithmetic. No program that had a name or line in the budget would be cut; no taxes would be raised. Yet the deficit was pronounced intolerable and it was pledged to be eliminated.

This was the essence of the unreality. The President and his retainers promised to eliminate the monster deficit with spending cuts when for all practical purposes they had already embraced or endorsed 95 percent of all the spending there was to cut.

The White House itself had surrendered to the political necessities of the welfare state early on. By 1985, only the White House speechwriters carried on a lonely war of words, hurling a stream of presidential rhetoric at a ghostly abstraction called Big Government.

The White House's claim to be serious about cutting the budget had, in fact, become an institutionalized fantasy. I had tried diplomatically and delicately to convey the facts that made this so, but the only response I got was a new whispering campaign led by Ed Meese: Stockman is too pessimistic; he's been on the Hill too long; he's one of *them!*

Maybe so. Ever since September 1981 I'd been reduced to making one-sided spending deals. The politicians mostly got what their constituents wanted, but here and there we trimmed the edges. But my relentless dealmaking inherently yielded savings that amounted to rounding errors in a trillion-dollar budget because it was based on bluff and searching out for obscure tidbits of spending that could be excised without arousing massive political resistance. Thus, for example, we did get the second-tier COLA in the railroad retirement program capped below the inflation rate. This reduced overall spending by 0.0001 percent!

But nothing meaningful could be done about federal spending because even the President no longer had a plausible program to do anything about it. The White House had thrown in the towel on all the big spending components that could make a difference on the deficit. And it had abandoned nearly every policy principle that could have been the basis for organizing a renewed anti-spending coalition.

The domestic budget is huge, but nearly 90 percent of it is accounted for by a handful of big programs: Social Security and other social insurance; Medicare; the safety net, veterans, agriculture and transportation.*

By 1984, the White House had explicitly decided not to challenge these big components of the welfare state budget in any significant way. Jim Baker had been proven correct about the political consequences of attacking the basic entitlement and COLA of the 36 million citizens receiving Social Security and Medicare. So I had eventually been reduced to trying to get the Congress to modestly trim the Medicare entitlement. But in the election/budget year of 1984 even the President rejected proposals for increased patient cost sharing, and then went on to plant his feet in concrete against any cuts in Social Security at all.

These two programs accounted for half of the welfare state budget, yet by 1985 the only option we had left was to squeeze a few percent of their massive $270 billion cost from the doctors and hospitals that delivered the services the old folks were now guaranteed to receive. Right then and there the fiscal arithmetic of coping with a $200 billion deficit through spending cuts alone had become prohibitive.

The President had also inadvertently safeguarded the smaller civil service retirement system from cuts, too. The administration budget carried a proposal to cap civil service COLAs and penalize early retirement (before age sixty-two), but its legislative prospects depended crucially on applying the same concept to the even more generous military retirement program. Both proposals were put in the President's budget, but the Joint Chiefs of Staff soon complained loudly. The President then cancelled the

*See Appendix for details.

military reforms, buttressing the $25 billion civil service retirement program as he did so.

Likewise, the $27 billion complex of veterans' programs was also given immunity in a curious way. The White House appointed a VA administrator, by the name of Harry Walters, who spent a large part of his time denouncing the President's budget director at American Legion conventions. Whatever tiny veterans' cuts I managed to stuff into the budget were made instantly non-operative by Mr. Walters's ability to claim with impunity that he spoke for the President. No one at the White House ever said he didn't.

After the first round of cuts in the $75 billion complex of welfare, food stamp, and safety net programs, the White House raised the white flag there, too. The President promised the governors not to tamper seriously with Medicaid—the largest program—and appointed a task force which recommended that we repeal some of the nutrition program reforms we had already made. While we continued to send up to the Hill small, technical proposals to nick a billion or two, the clear White House message was that the safety net was now inviolate.

That position reflected the overwhelming sentiment of the public, and in that sense was justifiable. But it also constituted another big block of evidence that the President's anti-spending rhetoric amounted to an illusion.

By the mid-1980s the Reagan transportation budget in constant dollars topped Jimmy Carter's best year by 15 percent, Johnson's by about 40 percent, and Kennedy's by about 50 percent. Big Government? That was something for the speechwriters to fight as long as they didn't mention any names. The problem with all these local roads and buses was that other politicians had an equally strong case for aiding local projects—classrooms, public libraries, day care centers, alcoholism clinics and jailhouses. Spending continued largely unabated in all cases.

Indeed, the White House record was nearly bereft of any consistent anti-spending policy principles by 1984, and that fact had not escaped the notice of all the other politicians on Capitol Hill. Early on we had demonstrated that even in the politically easiest cases there was no consistent standard for what constituted appropriate federal spending.

That's why we ended up giving several billion dollars to Exxon, Union Oil and some gas pipelines to build synthetic fuel plants. When Meese chimed in with the point that these corporations had already invested a small fraction of one percent of their own equity in these projects, the President had an answer.

"We can't cause an honest business to lose money," he said. All these projects turned out to be total white elephants, but the lesson was clear. If Exxon couldn't be permitted to drill a dry hole right in the Roosevelt Room where the decision was made, what other business subsidy had a chance of being eliminated?

Nor was this an aberration. Right before the 1984 election, the giant timber companies sought an economic bailout that would cost $1.5 billion over several years. We had fought this proposal since 1982, but now it was alleged to make the crucial difference that would put Oregon in the President's electoral column, possibly along with the other forty-nine states. I protested that the bill would hand over $15 to $30 million each to seven Fortune 500 companies, including poverty cases like Boise Cascade. "No," replied the President, "we can't veto. The companies wouldn't really pay us that money anyway. They would just pass it on to consumers."

If there was any thin sliver of the welfare state where the Reagan Administration might have raised the free enterprise and anti-spending banner, it was against the socialistic enterprises of U.S. Agriculture. But by 1984 we had accommodated to the political facts of life here, too. As I contemplated the task of formulating a strategy to deal with the nation's massive deficit after the election, two White House episodes regarding agriculture stood out in my mind vividly. They were the smoking gun which proved that the White House couldn't even tackle the fabulous excesses of the farm pork barrel, and that was the very bottom of the whole spending barrel.*

The first episode had occurred in the summer of 1982. The issue was agriculture marketing orders, an out-and-out socialist relic from the New Deal that tells every California orange and lemon grower how many of these little fruits can be marketed each week.

The established growers like this kind of lemon socialism because it keeps prices up, supplies down, and new competition out of the market.

By then I knew better than to argue on behalf of "marketplace efficiency," "consumer welfare," and the supposed right of free Americans to produce and sell whatever kind of fruits, nuts, and widgets they want.

So I'd located some photographs of this lemon socialism at work. They showed gargantuan mountains—bigger than the White House—of California oranges rotting in the field. The reason for all this deliberate

*This was verified in December 1985 when the President signed the most expensive farm bill in history. It will cost $50–75 billion over three years, exceeding even the bill he signed in 1981 that had established the previous record.

garbage creation was that the USDA orange commissar had cut back the weekly marketing quota, fearing that a bumper crop would drop the price and give consumers too good a deal on oranges.

Since we'd also just talked about a free food program for the homeless, my pictures did seem to suggest something rather ludicrous, and everyone around the cabinet table began to laugh. But then the California politicians swung into action.

Dick Lyng, an old California Reaganaut and Under Secretary of Agriculture, said I was fibbing. "The USDA had nothing to do with this. The growers elect their own committees to stabilize the market.

"You remember, Mr. President," he added, "that a lot of our friends out there depend on these marketing orders."

Well, okay. Some of our friends are members of the Navel Orange Growers Soviet. It wasn't a compelling argument.

Meese then glanced at his Adam Smith tie and took his turn. "We need to study the possibility of long-range reform," he said, "but remember these are businessmen. It would be wrong for the government to suddenly disrupt their market."

Disruption thus had a new definition. Every week the growers rig the market in what would be a violation of the anti-trust law, and now, if the Agriculture Department didn't use its power to exempt them from federal prosecution, well, that was "disruption." But never mind. Meese's deputy, Jim Jenkins, who was the White House welcome mat for special interest groups, had a better idea.

"Without marketing orders you would never get the multi-million-dollar investments in refrigeration equipment and storage facilities necessary for a year-round supply. A competitive market would be too risky."

I asked him how about year-round Florida oranges that come right off the free market, with no supply control by a Florida Orange Grower Soviet at all. He said my point wasn't valid because I was mixing oranges and oranges.

Jim Lake, the Reagan campaign press secretary and paid lobbyist in the off season, had another point. He just went up to the Hill and got a law passed making it illegal for the director of OMB even to read the marketing orders before they were stamped out by USDA. That was that for free enterprise in California. Needless to say, there remained equally compelling cases for other variations of Big Government in the other forty-nine states.

It was the handful of dairy states which in fact brought the second episode to a head. In late 1983 Ed Meese had called me to his office to deliver some truly stunning news.

"I thought you would want to know," he said crisply, "the President just signed the dairy bill."

"Ed, I'm so shocked I don't know what to say," I muttered in response, "except that you're turning this whole thing into a bad joke." I then huffed out of his office.

It was shocking. Ronald Reagan had just signed a bill paying dairy farmers $1,300 per head *not to milk their cows!* It also contained a hidden tax on consumers which would be used to pay farmers to slaughter their whole herd for the equivalent of *$5 per pound of hamburger.*

I'd been fighting this $2 billion per year rip-off for fifteen months. Time after time I had brought the dairy bill up at LSG meetings. Everybody's on board for a veto, right? Nobody's going to pull the rug on me, right?

Each and every time Meese had earnestly bobbed his head in the affirmative, so I had spread the word high and low on Capitol Hill that the bill was a goner.

Now I was the fool, and the reasons revealed the final answer as to why the Reagan White House's anti-spending rhetoric could not be taken seriously. The Reaganites were, in the final analysis, just plain welfare state politicians like everybody else.

In this case the three culprits were Ed Meese, Dick Lyng, and Jesse Helms. You hardly needed to know any more.

Meese always came to the lick log with his Adam Smith tie on and usually left without his shirt. The political consequences of the Reagan Revolution's free market and anti-spending principles were just too unsettling for him to tolerate.

Dick Lyng believed in free markets but had also learned all about farm pork politics in Sacramento. While Jack Block, a decent and well-intended hog farmer from Illinois, was the nominal Department Secretary, there was never any doubt that Lyng was the political engineer who ran up the USDA budget.

Jesse Helms was, well, tobacco, and he couldn't get reelected at all without bringing home the socialist bacon from Washington.

And the bacon of politics didn't come one slice at a time. It was always maddeningly interlinked. That's what this dairy bill fiasco exemplified perfectly.

I had anticipated the dairy bill because I had originally thought it was an exception to the rule. Rather than being protected in an omnibus farm bill with all the wheat, corn, cotton, sugar, peanuts, rice, and mohair constituencies locked together arm in arm, the 1983 dairy bill was going to have to roll down Pennsylvania Avenue all by its lonesome. Then: *zap!*

But at the eleventh hour Jesse Helms got desperate about tobacco. An earlier so-called allotment reform bill had decreed that by December 1983 certain absentee allotment holders had to sell their state-granted licenses. This turned out to include churches, YMCAs, 4-H Clubs, and Boy Scout chapters. What all these presumably God-fearing adults and children were doing owning tobacco allotments, I never did find out. But I quickly learned that Jesse Helms was determined to postpone the statutory deadline.

So he did what every politician does when he wants something bad enough. Helms added his tiny little amendment to rescue the Boy Scouts' tobacco allotment to the dairy bill. He then put his shoulder down to the log and started rolling it toward the White House.

By the time the dairy bill reached the President's desk bedecked with the tobacco rider, it had a new informal title: "The Jesse Helms Reelection Act of 1984." That transformed the whole character of the bill, causing a strange chorus to arise from the anti-socialist New Right: *This bill's for Jesse, no other bill will do.*

That's where Meese suddenly entered the picture. Helms and the New Right pulled his political chain and in a flash he was in the Oval Office pushing the President's official pen toward the signature line.

In the same flash something else happened: the single cleanest, easiest, and most justified shot at budget cutting during the entire Reagan presidency was kicked in the ditch. If this one couldn't be done, then nothing, but nothing, could be done about federal spending.

Needless to say, news that the President had signed the bill after several months of heated veto threats from his budget director brought an instantaneous response on the Hill: unadulterated guffaws, hilarity, and belly laughs. The politicians now knew without a doubt what had been true since June 1981. The only thing the Reagan Administration could do about federal spending was: fake.

As I prepared to make one last run at the deficit monster in late 1984, I soon found myself impaled upon an awful dilemma. Given the fiscal facts of life, I somehow believed that the White House would be prepared to wriggle out of its militant no-tax-increase campaign pledges. With everyone for the welfare state and no one against it, the only thing left to do was to pay for it. But I was mistaken once again. Ed Meese made that crystal clear at the first post-election meeting of the cabinet.

"We have three great goals for the second term," he said, "but the first and highest is to keep our pledge not to raise taxes."

So now our goal was *"Don't pay for a red cent of Big Government, just blame 'them' for all the red ink of it."* After four years in office the Reaganites had no more sense that governance involved making unpalatable choices than they had in the Wexford garage way back at the beginning.

So I attempted to stimulate one more round of Ping-Pong. The final play *had* to yield a tax increase. It was vital.

The first step was easy and involved the establishment of a $50 billion target for deficit reduction in the President's 1986 budget—the minimum credible goal under the circumstances.

I next got out my supply-side catechism book and scrounged for spending cuts that would not poison the political environment or violate iron-clad presidential commitments. This eliminated most of the budget—Social Security, the safety net, veterans' benefits—but there was still one small corner to work in.

Dozens of small economic subsidies and state and local grants could be attacked on principle, even if there was little hope of prevailing on Capitol Hill. I thus targeted Amtrak, EDA, the Ex-Im Bank, federally owned power marketing authorities, student aid, the Small Business Administration, mass transit subsidies, REA, and many more. These savings barely added up to $35 billion, but with a small defense trim, the usual quota of smoke and mirrors, and debt service savings, the President's 1986 spending-cut total was gussied up to match the $50 billion target.

But not without a struggle because the relevant cabinet officers fought to the last drop of blood against even these minor cuts. Jim Sanders, the SBA administrator, was soon even visibly campaigning on the Hill to defeat my proposal to eliminate subsidized loans for used-car dealers.

The next step was to get the Senate GOP leadership on board. The College of Cardinals was more than willing to get the disagreeable business of raising taxes over with. Dole, Domenici, Hatfield, Laxalt, Packwood, Simpson, Danforth, Heinz, Chafee, Boschwitz, Gorton, even Armstrong and McClure, were ready. To a man, they knew you weren't going to meaningfully reduce the deficit without additional revenue.

But the responsible leaders of the Senate were now in a quandary. If they came right out for higher taxes, they would soon be on a collision course with the White House, inviting renewed stalemate.

Finally we came up with a long shot: We would try to cobble together the largest spending-cut package possible in the Senate. All those who knew we also needed to raise taxes agreed to bite their tongues for a while. The Senate spending-cut-only package would be the final housecleaning of the welfare state. Anything we could persuade fifty-one senators to cut or throw overboard would be included in it.

Then we would bounce it over to the House side. Since the Democratic majority wanted to cut no spending at all, they would bounce back a budget package with taxes in it. The politicians of Capitol Hill would next compromise between the two and then bounce a decent-sized deficit reduction package which included both tax increases and spending cuts down Pennsylvania Avenue. Then we would find out if it was Clint Eastwood—"make my day"—or a modicum of reason that would determine the nation's economic and fiscal future.

Dole and Domenici worked the strategy all spring. Day after day we round-tabled in Dole's office, and this time it was the real thing. We marched through one program at a time, one Republican faction at a time, until we had gotten through the whole trillion-dollar budget. Never before had the game of fiscal governance been played so seriously, so completely, or so broadly as it was in Bob Dole's office in the spring of 1985. Rarely before have two political leaders displayed such patience, determination, and ability as did Bob Dole and Pete Domenici.

By May it was time for the Senate to start voting on its package designed to reduce the deficit by $55 billion in 1986, and by rising amounts in the out-years. One by one the Republican politicians came with their final demands as to what *couldn't* be cut if we were to have their vote. And we needed nearly every single vote among the fifty-three Republicans because no Democrats would play this lousy game of having to tiptoe around the President in public.

As the long, final day of the Republican budget round-tabling passed into the middle of the night in Bob Dole's office, I finally saw, as the politicians circled the budget one last time, the awesome staying power of the Second Republic.

We had killed impact aid in February 1981 in the Cutting Room, but it had been resurrected repeatedly in the interim until the Dole–Domenici budget abolished it again. Now along came Senator Jim Abdnor of South Dakota, who stood to lose $300,000 at a single Air Force base school district out yonder in the badlands. In the end his vote went in the yes column and $100 million in impact aid went back into the budget.

The Johnson War on Poverty was long dead, and what remained was only a $300 million echo in the federal budget. The Dole–Domenici budget silenced this echo, but only until ultra-conservative Senator Charles Grassley of Iowa came along and traded his vote for LBJ's tattered legacy.

Senator Bob Kasten was a Kempite anti-taxer, so he visited Dole's Cutting Room too. He wanted to make sure that we were not planning to raise a tax in a recovery year. He also wanted to make sure that we were not planning to cut any spending for farm subsidies and UDAG in an election year. He left satisfied on all counts, for, like all the others, his was the last vote that added up to fifty.

Bill Cohen from Maine was justifiably mad because the northwestern senators had prevailed in overriding my plan to make the Bonneville Power Administration pay back its debt to Uncle Sam. I had pleaded until I was blue in the face with Senators Gorton, Evans, and Hatfield for even a token $100 million per year in repayment on its $8 billion debt. But they had three votes, I had none, and so we had saved no money.

Bill Cohen said rural housing was just as important to his state, but unlike them he would compromise rather than insist on rule or ruin. After $4 billion in spending had been haggled back into the budget, he pronounced the remaining cut reasonable.

We had come up with a $5,000 annual cap on college student aid that saved billions, but Bob Stafford, chairman of the Higher Education Subcommittee, regretted that he couldn't go along. Someone might need $8,000 or $10,000 from Uncle Sam to go to Harvard or Middlebury College in Vermont. We gratefully took his vote and a token cut in lieu of real reform and moved on.

We ended up adding money back for the Ex-Im Bank, soil conservation, Medicare, mass transit, Amtrak, child nutrition, education for the handicapped, National Institutes of Health, vocational rehabilitation, and the Small Business Administration, too.

The latter four programs had gotten about $1 billion in added funding when Senator Lowell Weicker had glared my way and bellowed, "How long are we going to allow this little pissant to dictate around here? He's had his head up his ass from day one."

If it hadn't been for the difficulty of speaking from that position, I might have called him a name too. But I had some quick figuring to do because the vote was coming shortly.

We had cut about $54 billion from the 1986 budget. That consisted of $24 billion in defense and about $10 billion in debt service and smoke and mirrors. So after all the round-tabling in Bob Dole's Cutting Room, we had picked through the half-trillion-dollar welfare state budget and come up with $20 billion that Republican senators were willing to cut.

Ninety-six percent stays, 4 percent goes. That's what we had come to in Bob Dole's Cutting Room after the most thorough, inspired, and detailed attempt ever made by the collectivity of the nation's Republican politicians to decide what it was they wanted from Big Government and what they could do without.

Just the same, the Senate Republicans were heroes that night when they walked the plank and passed the Dole-Domenici budget. They had put a cap on the COLAs of 40 million voters. They had cut, nicked, and squeezed wherever their collective politics permitted. It was utterly the best that could be done.

But it was all for naught. In rapid order the remainder of the Republican politicians weighed in, blowing the Dole budget and the Ping-Pong game to smithereens.

Jack Kemp joined Claude Pepper in leading the charge to save the COLAs of the old folks. The Merrill Lynch bull charged in again and agreed with Kemp and the House Republicans. Nobody was going to walk the plank on Social Security.

Dole and Domenici then came up with an oil tax to fill up the hole left by the COLAs' demise. The President said absolutely not. He would wait for the pony.

There was not a rational possibility left to deal with the irrationality that had descended upon the nation.

I gathered up my black books, knowing that what I had started four years before had come to a dismal end.

I could not help recalling what my father had said about that mess out in the tomato field twenty-seven years before.

"*What counts around here is what you do, not what you intend.*"

What I had done was helped make another mess.

"*One of these days you will learn,*" he had said.

Maybe at last I had.

Some will be tempted to read into the failure of the Reagan Revolution more than is warranted. It represents the triumph of politics over a particular doctrine of economic governance and that is all. It does not mean American democracy is fatally flawed: special interest groups do wield great power, but their influence is deeply rooted in local popular support. Certainly, it does not mechanically guarantee the inevitability of permanent massive budget deficits or economic doom.

Its implications are deeply pessimistic only for the small and politically insignificant set of anti-statist conservatives who inhabit niches in the world of government, academia, business, and journalism. For us, there is no room for equivocation. The Reagan Revolution amounted to the clearest test of doctrine ever likely to occur in a heterogeneous democracy like our own. And the anti-statist position was utterly repudiated by the combined forces of the politicians—Republican and Democrat, those in the executive branch as well as the legislative.

This verdict has implications, however, which go well beyond the invalidation of anti-statist doctrine. The triumphant welfare state principle means that economic governance must consist of a fundamental trade-off between capitalist prosperity and social security. As a nation we have chosen to have less of the former in order to have more of the latter.

Social Security, trade protectionism, safety net programs, UDAG, and farm price supports all have one thing in common. They seek to bolster the lot of less productive industries, regions, and citizens by taxing the wealth and income of everyone else.

The case for all this redistributionism is lodged in the modern tradition of social democracy. In America we have seldom explicitly acknowledged this principle of governance, but it is in fact what we have. And to some degree it works. On the basis of private cash income alone, more than 55 million Americans would end up below the so-called poverty line. But after all the welfare state's cash and in-kind benefits are paid and taxes are collected, the number of the statistically poor drops by nearly two thirds. So although it is riddled with inefficiency and injustice, the American welfare state does fulfill at least some of its promises.

But it does so at the expense of a less dynamic and productive capitalism. The kind of high growth and constant economic change envisioned by the supply-side doctrine is not possible if government taxes away economic rewards, blocks capital and labor reallocations, and funds a high safety net.

Social democracy also encourages the electorate to fragment into narrow interest groups designed to thwart and override market outcomes. That these pressure groups prevail most of the time should not be surprising. The essential welfare state principle of modern American governance sanctions both their role and their claims.

Viewed in this light, our political system performs its intended function fairly well. Its search to balance and calibrate the requisites of capitalism with social democracy's quest for stability and security has produced a surprising result. By any comparative standard, American politicians have created a more favorable balance between the two than in any other advanced industrial democracy.

Local, state, and federal spending in the United States now amounts to slightly over 33 percent of GNP. Ten percentage points of that are consumed in servicing our governmental debts and paying for our national security. So under the broadest measure possible, the American welfare state costs about 22 to 23 percent of GNP. By contrast, while the Japanese are frugal, they still spend nearly 30 percent of their GNP for domestic welfare. The cradle of social democracy—Great Britain—still spends nearly 40 percent of GNP on its welfare state, the valiant efforts of Prime Minister Thatcher notwithstanding.

The Germans spend nearly as much as Great Britain, and the fading socialists of France spend even more. Sweden is in a class by itself, spending over half of its GNP on its vast, debilitating welfare state, or more than double what we do.

So we can afford to be the arsenal of the free world and have our modest welfare state, too. The only thing we cannot afford is to continue pretending we do not have to finance it out of current taxation.

This observation brings us to the true crossroads of the future. Our budget is now drastically out of balance not because this condition is endemic to our politics. Rather, it is the consequence of an accident of governance which occurred in 1981. That it persists is due to the untenable anti-tax position of the White House. After five years of presidential intransigence, all of the normal mechanisms of economic governance have become ensnared in a web of folly. But this condition can be remedied whenever the White House decides to face the facts of life.

Meanwhile, the economic danger mounts and the fiscal folly of the Reagan Revolution's aftermath reaches new heights. The recently enacted Gramm-Rudman deficit reduction law stands as testimony to that proposition. It is truly difficult to conceive of a more mischievous, unworkable blunderbuss than this alleged automatic budget-cutting device.

Gramm-Rudman will never reduce the nation's giant and dangerous budget deficit by any significant amount. After one or two years, its mechanical formula for across-the-board expenditure reductions in the 50 percent of the budget not exempted or protected would produce havoc. The defense cuts would be so draconian as to amount to unilateral disarmament; a large portion of the IRS staff would be fired and we would collect no revenue at all; life-saving new drug applications would pile up at the Food and Drug Administration unreviewed; our airports would become a parking lot for cars, people, and planes because the FAA would be too short-handed to manage even a fraction of the normal traffic.

All of this chaos and much, much more is inherent in the arithmetic of Gramm-Rudman, and is the reason it will be eventually repealed or drastically amended. Hopefully, the Supreme Court will spare us much trouble by ruling it unconstitutional.

Still, extricating ourselves from the fiscal folly now upon the nation by means of an alternative legislative solution will test our institutions of governance and our political leaders as rarely before. Folly has begotten folly, and the web has become hopelessly entangled in a five-year history of action and reaction. But the politicians of both parties still have a sound and valid reason for disengaging from the Reagan Revolution's destructive aftermath. A radical change in national economic policy was not their idea; economic utopia was not their conception of what was possible in 1981 when the policies of the past collapsed. Republican and Democratic politicians together can tell the American people that a few ideologues made a giant mistake, and that the government the public wants will require greater sacrifices in the future in the form of the new taxes which must be levied.

The politicians can tell the American people that a dangerous experiment has been tried and an old lesson has been demonstrated once again. Economic governance of the world's greatest democracy has been shown to be a deadly serious business. There is no room in its equation for scribblers, dreamers, ideologues, and passionate young men bent upon remaking the world according to their own grand prescriptions. The truth to be remembered is that history in a democracy does not live to be rewritten and rerouted; it just lives for another day, finding its way into the future along the trajectory of its well-worn and palpable past.

Since repudiating the debt through inflation will soon be revealed as the inevitable consequence of the course we are now set on, there remains a slim hope that we will turn back before it is too late. Despite all his illusions, Ronald Reagan is still our President, and he instinctively under-stands and abhors the evils of inflation. When the choice between raising taxes and debauching our money finally comes to him, I somehow believe that he will yet do the right thing to save his presidency and the nation's economy. It is still not too late for the nation's most imposing politician to join with the other politicians and do what together they must: Trim a little more spending where the democratic consensus will permit it, and raise a lot of new taxes to pay for the government the nation has decided it wants.

This solution will not bring about economic perfection by a long shot. Taxes will end up too high and government will end up too big. But catastrophe will have been avoided, and that is the main thing now.

These prescriptions do not add up to a shining City on The Hill. But what is attainable—a return to a modicum of national fiscal solvency and economic stability—is far preferable to the dangerous course we are now on.

In a way, the big tax increase we need will confirm the triumph of politics. But in a democracy the politicians must have the last word once it is clear that their course is consistent with the preferences of the electorate. The abortive Reagan Revolution proved that the American electorate wants a moderate social democracy to shield it from capitalism's rougher edges. Recognition of this in the Oval Office is all that stands between a tolerable economic future and one fraught with unprecedented perils.