For GOP Operatives, History's Faint Echo:
Reagan During 1981 *versus the GOP since 2016*

Republicans of all ages more or less "know" the following...

Ronald Reagan and his allies restored a strong economy: The 1980s were a "good to great" decade for wages, productivity, tax incentives, innovative start-ups, stocks, and other vital indicators. No doubting that here.

But GOP Operatives 45 and younger likely DON'T know that...

Jimmy Carter was no pushover during the '80 campaign. The economic agenda from challenger Reagan was misleading if not incoherent. And the collapse of inflation soon after he became President — NEVER part of the GOP plan — brought new headaches. Soaring joblessness and red ink made 1982 a tightrope walk. Strangest twist of all? An odd lot of tax HIKES had to be traded for Fed action to get past some 2 1/2 years of TIGHT MONEY.

Doesn't fit what you've heard? **And what about lessons for 2020?** They start with what General Eisenhower reportedly said during World War Two: **Rely on Planning, but Never Trust Plans**.

by Frank Gregorsky

www.ExactingEditor.com/Eighty-One.pdf

Long after Ronald Reagan left the White House, one would see, here and there, this bumper sticker...

PRESIDENT REAGAN — 8 GREAT YEARS

But — for GOP candidates, incumbents, operatives and activists, it was SIX great years — along with the two discordant and defensive ones: 1982 and 1987.

What about his PRE-presidential year? The 10-point November 1980 landslide, which came with a Senate majority, was thrilling. But the size of that victory was foreseen by no one even two weeks before it happened. And the premise that the '80 campaign was a GOP romp, thanks to an electorate sick of Carter? One more dose of romanticism that blocks one's grasp of the perpetual tension in politics.

Centering on 1981, this pdf file isn't your typical partisan celebration of what everyone — friend, foe, flake, or fraud — called REAGANOMICS. Yes, it's pro-Reagan and reliably conservative. But it contends that other senior officials deserve at least as much credit as has been awarded Jack Kemp, eight-term GOP Congressman from Buffalo.

During 1979, Kemp lobbied candidate Ronald Reagan to abandon has longtime fiscal conservatism; instead, push for economic growth via deep income tax rate reductions. Reagan's domestic policy advisor Martin Anderson did the same as a campaign insider. But Kemp, Anderson and their conceptual cohorts would've faced a shaky future without hard-asses like Paul Volcker and agile articulators like — are you ready? — first-term Treasury Secretary Don Regan.

Here's the other way this document distinguishes itself. It's written for latter-day GOP Operatives... Operatives??? Yeah, that's a clumsy word — and chosen in part for its whiff of mystery. Some dictionaries take "operative" to mean spy. In fact, 98% of GOP operatives function right there in plain sight. Most feel that no one pays attention to them — but that's not because they're impersonating spies.

Though never profiled as a group, Operatives work as staff in Congress, in the state capitols, and for the 50 state parties. They are the guys and gals who aren't true believers or corporate lobbyists, but — even as they deal with both of those types — function somewhere in between. They come by their partisanship via team choice and institutional (mostly job-based) momentum. They try to keep their elected bosses out of ditches. Some work crazy hours to win elections.

It's not too hard for a volunteer to become an Operative. It's highly unlikely that an Operative will ever go back to being, or feeling like, a volunteer.

If you are an Operative, I don't need to say any more. YOU know how you got here and what you go through. Politics is more a profession than it is your passion. That's why you get static from random volunteers, and most every economist.

And this draft book chapter is history than can reduce your boss's chance of a lost election or on-line onslaught. None of us needs to tolerate Democrat dismissals of the 1980s. But neither should you rely on ideologues or GOP memoir-writers.

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1. Wild Opinion Swings in an Electorate Lacking Today's Polarities

July 1980, third week: Ronald Reagan emerges from the Republican Convention in Detroit with a 25-point lead. Anticipating Twitter, and needing only 45 characters, he telegraphs GOP values as "family, work, neighborhood, peace and freedom."

A dozen days later, in *The Washington Post* for July 30, veteran pollster Louis Harris reports on Reagan's rival: "President Carter's job ratings [have] sunk to new lows [at] 77-22% negative. His previous low of 75-25% negative, recorded last October, had been the lowest recorded for a President in modern political history."

Hundreds of U.S. hostages are still imprisoned in Iran. After a failed military rescue mission in April, the public has lost confidence in Carter's calm but inconclusive crisis-management. Senior House and Senate Democrats don't like him and regard his congressional liaison staff as a joke. A short but violent recession during the first half of 1980 has stopped job growth. You've heard (or recall) all of that, right?

And yet, once his own convention is over, President Carter makes a fight of it. Here's a guy who can't even get ABC White House correspondent Sam Donaldson to vote for him! (Overall, Carter's press was not good.) But he means to stay in office.

Jimmy Carter won the White House after a single so-so term as Governor of Georgia. He was an adroit and resilient national campaigner: As the fresh-faced challenger during 1976; as the President who ended Sen. Ted Kennedy's chances of becoming President; and as the ruthless incumbent articulating — against Reagan in '80 — much of what Democrats and the Left would use against Donald J. Trump in 2016.

Wild opinion swings roiled the campaigns of 1976 and 1980. In those days, the national electorate was far less polarized. After being down by 36 points in July of '76, President Gerald Ford held challenger Carter to a 2% margin in November. Now it's 1980, and Reagan is the challenger. And most of his 25-point midsummer margin is gone by Labor Day. Everything the Reagan campaign does, or does not do — each supposed gaffe, every opening for a hostile press — could mean The End.

Republicans pledge to break the back of inflation; they'd have to be complete idiots to make any other issue #1. Some, especially ticket-leaders Reagan and George H.W. Bush, also pledge to turn back the threat of recession. (As far as anyone knows in the Summer of 1980, the slump that had actually ended in July is still occurring.)

How will a Republican Administration **BOOST ECONOMIC GROWTH**? Stimulate work, savings and investment via a three-stage 30% cut in federal individual income tax rates. How will the same government bring about a **SHARP DECLINE IN INFLATION**? Restrict money-supply growth, balance the federal budget, deregulate industries, and — if mainly for show — eliminate two Cabinet departments.

The GOP mega-pledge becomes: More Jobs, Less Government, and Much Less Inflation. As noted, Ronald Reagan had been won over to the Supply-Sider vision of inflation being materially reduced without a major recession. True believers in the supply-side theory liked to imagine the U.S. wouldn't need even a minor one.

None of Ronald Reagan's rivals for the 1980 nomination had been so optimistic. And neither was the team that, in May 1979, had put the Conservative Party — this time led by a genuine conservative, Margaret Thatcher — in power in Great Britain.

2. "[U]npopularity would almost be a sign she was doing the right thing"

A year after Mrs. Thatcher became Prime Minister, William Rees-Mogg pours cold water for — as opposed to on — his right-leaning U.S. cousins: "Politicians are naturally attracted both by gradualism and by supply-side economics... The appeal is that inflation can be cured without undue pain. This is almost certainly false..."

The article is "INFLATION: Can Conservatives Put it Right?," from *Public Opinion* for April/May of 1980. Rees-Mogg goes on:

> **[T]here is no example of an inflation being ended without some period of economic contraction, and the straight truth is that ending inflation hurts... The British government is, however, prepared for that. Mrs. Thatcher has from the start of her leadership assumed that she would have to survive a period of unpopularity, indeed that such a phase of unpopularity would almost be a sign that she was doing the right thing.**

It is, and she will. But the U.K. political system does not mandate a parliamentary (congressional) election two years after a Prime Minister takes office. That's why Mrs. Thatcher had less need of free-lunch menus while running; and she'll have room to hang tough once her brave decisions bring about downpour and uproar.

A similar storm awaits U.S. campaigners thirsting to end the Carter Presidency. But, if anyone campaigning for candidate Reagan fears such a storm, they're not talking.

Reagan's high command consists of dreamers — gung-ho supply-siders declaring that inflation and unemployment have nothing to do with each other — and bomb-defusers. The latter know what history (not just Rees-Moog) says about economic tradeoffs; they are struggling with how much can be offered to voters.

Traditionalists advising candidate Reagan, including Alan Greenspan, know that more jobs along with less inflation won't be possible in the first two years. So, nine weeks before the 1980 election, the GOP's economic elders cobble together a 1984 scenario that (a) avoids a deep recession while (b) reducing inflation SLOWLY, and (c) closing the annual budget deficit while (d) increasing military outlays by a large but unspecified amount. Reagan presents it in Chicago the week after Labor Day.

Journalists doubt; Democrats jeer. The same balkers had said nothing in 1976 when rookie Jimmy Carter promised 4% unemployment and 3% inflation by the end of his first term. (Actual numbers: 7% and 12%.) All candidates for President overdo the cotton-candy generator, but Carter has far more to explain during 1980.

Not until October's final week does the latent majority desire for a new President break through in polling. Final score, November 5th, 1980 — Reagan 50.7%, Carter 41.0%, and former GOP Congressman John Anderson 6.6%.

Even without the near-assassination of Ronald Reagan on March 31st, the first six months of 1981 will be nail-biters. Not because the White House and its allies in Congress get careless. (They're typically way ahead of the bad guys.) It's because trying to shape a whole game still brings close calls and compels tactical fixes.

3. Reagan in 1981 and — or is it versus? — Trump & Congress Now

When it comes to GOP leadership in 1981, what's "historic" in a way that's worth our attention today isn't the Reagan team's economic projections (among the most self-detonating ever). It's what played out in Congress during six amazing months.

Apart from the ascension of Neil Gorsuch to the Supreme Court (a far better pick than Sandra Day O'Connor in '81), veteran GOP Congress-watchers during 2017 witnessed nothing as purposeful, organized, or effective — EXCEPT during the year's final few months. Yes, the Cavalry finally decided to rescue itself: Reminding some partisans of 1981's Economic Recovery Tax Act, House and Senate GOPers unified to pass "TCJA" — the **Tax Cuts and Jobs Act of 2017**...

CONFESSION: Your chronicler faced a dilemma: How to, in a single chapter, relive 1981 and preview '82 while addressing BOTH the politics and the economics of 2017-18. Couldn't do it. The only way to stay historical became to put at least HALF of the Trump-Era analysis into a nearby container, and offer you a key.

So? The link in the box below takes you to the equivalent of a magazine "sidebar" that's meant mostly for Beltway insiders and political scientists. It floodlights the institutional and GOP-competency differences between 2017-18 and 1981-82.

http://www.ExactingEditor.com/GOP-Miasma-2017.pdf

Miasma — "vapor from swamps, once believed poisonous"
(from *Webster's New Pocket Dictionary*, 2000, page 202)

4. Why 1980s Debt-Management is Impossible to Repeat Now

Deep tax reductions and serious deregulation nearly always earn their keep by booting GDP, jobs, wages and profits. That was true 37 years ago, and it's also valid today, for any democracy. But other distinctions beg to differ with anyone who thinks we are reliving Reaganomics and might even get "8 Great Years."

From 1966 all the way to 1982, inflation bored deeper into every labor contract and consumer calculation. The only way to own stocks "passively" was to collect dividends, dodge the headlines, and consume antidepressants whenever the bad news broke through. And the bouncy stock market of 1981's first half quit when money managers assumed Fed policy would mean a fresh recession. Right they were...

Rock bottom — a Dow Jones Industrials of 776 — won't be touched until August of '82. From that very low base, and having implemented sound policies during the market's final down phase, Reaganomics guaranteed years of investor profits.

President Trump walked onto a radically different stage. At its Winter 2018 crest, the Dow was quadruple its March 2009 bottom (using closing prices, 26,617 versus 6,547). Trump the candidate had called stocks "a big fat bubble." Now he legitimizes those Obama-Era gains and sees a sky of cloudless blue. That's another contrast: President Reagan never jinxed his luck by representing stocks as the real economy.

No GOPer likes to admit it, but piling up red ink resolved many partisan conflicts during the 1980s. President Reagan's two terms left the national debt 188% higher — $2.868 trillion in Fiscal 1989, versus $995 billion in Fiscal 1981. And how was that debt-binge absorbed? In the first place, total debt was growing from a low base.

The national debt is 75% of America's GDP today. In 1981, the national debt was exactly one-third that level — yet deficit jitters afflicted both parties. Indeed, the jitters went up alongside the debt. And the "rescue" came when interest rates plunged, along with inflation, making every bit of that new debt manageable.

Deficit jitters seem low today, at least among President Trump and the Democrats. And traditional conservatives can't fight red ink if it means holding back both their own President and a rabid minority whose economic maestro is Bernie Sanders.

Say what you want about Reagan and the debt. What's interesting is that ALL U.S. interest rates were HIGHER in his time than they are here in 2018. During the '80s, no matter where we were in the business cycle, it cost money to borrow money. By contrast, since the 2008 Crash, all levels of government and most of the Fortune 500 have benefited (or so they imagine) from credit priced below its functional value.

After a financial crisis, the objective need is to liquidate bad debt. Take big losses. Move those garbage loans and payday mortgages into the dumpster. It's called "deleveraging." But too little — WAY too little — of that took place during the Obama years. As the volume of public debt more than offset deleveraging by households and companies, overall debt-quality declined.

As a result, "We don't know the real cost of misallocation of capital. Meanwhile, people are making valuation decisions based on these bad signals." That's the bottom line from Eidesis Capital co-founder Simon Mikhailovich. He was interviewed by Robin Goldwyn Blumenthal for the June 2nd, 2012, issue of *Barron's*. "Too big to fail is now too BIGGER to fail," he explained.

> **Rather than enable a quick but extremely painful deleveraging, Western governments are trying to delay it by borrowing significant amounts to supplement economic activity. Debt increases the risks by increasing the interconnectedness of financial institutions and governments... Governments are borrowing more and more, and the spreads of government securities are getting tighter and tighter. So the creditworthiness is getting worse and the cost of funding is getting better.**

When Mikhailovich's Q&A appeared, the Dow was HALF its 2018 level. So the Dow goes on to double, which means Mikhailovich was wrong — right? I'd say "don't bet on it," but the truth is that "we," in the broad sense, HAVE bet on his being wrong.

In 2012, the U.S. stock market wasn't frothy. Shared memories of 2007-09 were still too fresh. Investors absorbed a bear market during August-October of 2011 and a longer though not quite as frightening correction from August 2015 to February 2016. In 2018, the Fed — finally — is acting like a Fed, rather than a Feeder.

The Tax Cuts and Jobs Act of 2017 is sound policy, but it flows into a very strange environment, i.e. "misallocation of capital" for almost a decade. Offering fiscal stimulation atop years of cheap credit, today's Republican Congress has no appetite for spending controls or entitlement reform. In fact, they've discarded the biggest achievement of the John Boehner Speakership — the Budget Control Act of 2011.

One web document can't treat those fiscal and macroeconomic factors with the depth they deserve. But we have to start somewhere. So let's try it this way...

Consider how impractical it is — economically and therefore politically — to assume the Trump Boom will replay what most of us remember as the Reagan-retooled economy of the mid-'80s.

Most officeholders are too Facebooked and Twitterized to think past November 2018. That means it's up to GOP Operatives — old-timers as well as newbies — to get comfortable with what really went on during 1981 and '82. Appreciate where the original plan blew up, and also how the worst outcomes were skillfully avoided.

Specifically, **(a)** don't simplify what it took to launch and secure Reaganomics,

(b) don't imagine that the interest-rate picture, fiscal strength, pension-fund health and Wall Street valuations of 2018 are anything like they were in 1982, and

(c) don't think that populist applause lines like "more money in your pocket" and "keep more of what you earn" can explain economic basics to a generation of young voters the majority of whom have no problem with the word "socialism."

Using current tenses to add some immediacy, let us retrod the historical trail...

5. "Reaganomics" as a Blend of Roller Coaster and Roller Derby

February 5th, 1981: President Reagan's first speech to Congress. It begins the push for his tax-cut and budget-control measures; the latter require most of the legislative design work. The remnants of oil and natural-gas price controls have been removed by executive order. Most short-term indicators have the U.S. economy expanding.

Murray Weidenbaum chairs Reagan's Council of Economic Advisors. The Administration goes with CEA projections for 1981 that have joblessness upticking by a mere three-tenths of one percent. No recession in sight? Convenient! When you don't see a recession, you take for granted no falloff in tax revenues. Yet a dip will have to be factored in, at least short-term, if tax rates are being slashed.

Congress is working hard. Nothing like 2017. Senate GOP Leader Howard Baker and most of the House GOP Leadership are on TV, ably sticking to their points. Again, nothing like 2017. Reagan tells his congressional liaison staff he'll make 500 phone calls, meet with Congressmen all day and night, and field the toughest questions about HIS program. Nothing like 2017. True, 2017 is not about a new President's economic program, it's about ObamaCare repeal. Right? Got it. Back to 1981...

After nearly being assassinated, President Reagan spends much of April in the hospital. Last week of the month, he goes before Congress again. GOP emotions, in and out of Congress, are overwhelming. As for Wall Street, the bulls are not yet inclined to turn tail. A methodical Web account of these early weeks says:

> **The Dow's close of 1024 was its highest since January of 1973 and the NYSE advance/decline line was also at its highest level since that time. Despite the fact that the Federal Reserve was currently in the midst of hiking interest rates ... the mood on Wall Street was fairly optimistic. *Business Week* had a feature article in late March titled "This Time the Rally May Hang On" [and a *Newsweek* story that same month], " Reagan's Big Bull Rush," suggested that Wall Street was pleased with the new President's conservative fiscal agenda.**

The media and Hill Democrats are whining about unfair budget cuts. Understood. As Thatcher said, "the job of the opposition Party is to oppose." But they can't deal with Reagan's reformist zeal or sense of command, now graced with a heroic aura.

In May, long-time Ohio Congressman Tennyson Guyer dies. His seat is filled by former FBI agent Mike Oxley (1944-2016). Oxley is sworn in on June 25, 1981. That's the same week the spending cuts clear the House, and five weeks before the tax bill passes — one growing much bigger than the Administration had intended.

"That first race I won by 341 votes out of 86,000 cast," Oxley told me 30 years later. "The Democrat was the chairman of the [Ohio legislature's] Agricultural Committee and gave me a hell of a race. In 1982, he chose not to run again. Because the tax cuts took a while to get into the economy's bloodstream, '82 could've been rough, if he had run."

Unlike Capitol Hill GOPers too timid to offer a health-insurance bill in 2009, and unlike Chuck Schumer and Nancy Pelosi offering no alternatives to Donald Trump in 2017, the 1981 Democrats opt to be competitive. One could argue that they have no choice. Despite the Reagan steamroller, they have kept a 50-seat majority in the House. Besides, tax bills are SUPPOSED to come to life in the lower chamber.

To accommodate higher military spending, Reagan's 30% tax-cut goal has just been trimmed to a 25% reduction in marginal income tax rates; the framework is still three stages; and there will be no retroactivity to January 1st.

House Democrats decide to offer 15% in two stages. Reagan's 10-10-10 has become 5-10-10, versus the majority Democrats offering 5 and 10 (not to be confused with five and dime). Both sides need and want a pro-business component to these tax packages pitched mostly at individuals and families.

The Chairman of House Ways & Means is Dan Rostenkowski from Chicago. Elected back in '58, "Rosty" is a lunch-bucket Democrat. It's a type nowhere to be found in the upper echelons of the rabies-spreading, mob-manipulating Party of today.

Rostenkowski shocks Republicans by triggering a bidding war for BUSINESS support. "It got to be quite competitive," Oxley remembers. "Rosty wanted to win so bad that they kept upping the ante. That's why it ended up at $750 billion — 'the largest tax cut in American history' — and the way it played out in '81 basically forced the Administration to come back [a year later] and do TEFRA. Remember that?"

Who could forget it? Actually, almost everyone HAS forgotten it. The detailed account of the 1981-82 stock market I just cited doesn't say a damn thing about congressional fiscal actions during '82. And latter-day supply-siders can't dredge up TEFRA because it doesn't fit their — or anyone's, really — ideological script.

"TEFRA" is the **Tax Equity and Fiscal Responsibility Act** and will have President Reagan and Speaker "Tip" O'Neill on the same side. Righteously opposed by 95% of the supply-siders, TEFRA becomes key to the interest-rate relief they demand.

Looking back at James A. Baker, Reagan's first-term Chief of Staff, Fred Barnes echoed Mike Oxley about the thrust and parry of 1981-82:

> **Reagan had proposed a simple 30% cut in individual tax rates, plus a more generous depreciation scheme for business. Rather than fight Rostenkowski, the White House outbid him. A string of special-interest tax breaks — at least**

$250 billion worth — were added to the Reagan bill. This ballooned the deficit and forced Reagan to accept a tax increase the next year. ["Mr. Schmooze," in *The New Republic* for 10/17/1988]

"Even though I was in the minority," Oxley told me, "I liked being a Member. The Reagan team was superb — the best I've ever seen — in terms of the congressional liaison, the Leadership, and Reagan himself. He ran off something like 15 straight victories. He was kickin' ass — undefeated for a long time. Everything from AWACS to PATCO to TEFRA. It was almost like watching sports — they'd say, 'Reagan just won his 12th victory.' He was bigger than life. It took on kind of this team concept."

And we're not done recounting the surprising moves of Capitol Hill Democrats.

6. Losing their Bid for Business, the Dems Help Launch Reaganomics

As noted, Republicans have no House majority in 1981. But Oxley stressed a factor absent today: "[T]here were a lot of Democrats [we could work with] back then — more moderate to conservative Democrats; the term 'Blue Dog' was not in use then. Instead they were Boll Weevils. And they voted a lot with us."

When they do, it infuriates Speaker O'Neill and House Majority Leader Jim Wright of Texas. But they and other top Democrats remain fair on legislative process. Well before Rostenkowski's alternative tax bill emerged, O'Neill arranged the House schedule to assure the committees and the Floor consider the new Administration's fiscal measures alongside the alternatives.

We're now up to late July. The Ways & Means Democrat bill is defeated. Reagan's measure — 5-10-10 for individuals and bursting with corporate tax breaks, known as "ERTA" for **Economic Recovery Tax Act** — clears the House by 75 votes. And then, on the vote for FINAL PASSAGE, support swells to 323 Members, with 56% of Democrats voting aye.

Did you get that? **Fifty-six percent of House Democrats vote aye** (versus zero percent for a similar bill — the TCJA — 36 1/2 years later). From 1982 until Reagan leaves office, Democrats will complain about "tax cuts for the rich" creating "permanent deficits." Never you mind any of that in July '81, though. In fact, the "aye" tally includes these House Dems: Future Speaker Tom Foley, future minority leader Richard Gephardt, and Clinton plus Obama mess-cleaner-upper Leon Paneta.

The Senate is even whackier. Reaganomics co-launchers include heavy-hitter Dems Joe Biden, Robert Byrd, George Mitchell, and Pat Moynihan. Astonishing, but there it is: **Just 10 of the then-47 Senate Democrats have the guts to vote against a landmark tax package their Party will denounce for the rest of the 20th Century.**

Do you think most of the other 37 would have gotten away with a "yes" vote had MSNBC, *The Daily Kos* and Soros-fueled Rent-a-Mobs been around 37 years ago? No matter, because this document is mainly about the GOP. And, for Republicans, a midsummer night's dream has played out in a misleading manner...

Spending constraints were passed in late June. The tax cut passes a month later, and is signed into law by Reagan at his southern California ranch. Congress goes home for the summer recess; the professional air traffic controllers' organization — PATCO — commences an illegal strike; Reagan fires all who refuse to return to work; and budget victories soon turn from being the toast of the town to a hot potato.

August 1981 is when the good times for Republicans quit. And not because of the PATCO uproar and travel delays, either (that vortex becomes a victory for Reagan and Transportation chief Drew Lewis). Legislative victories will roll on, all the way to Labor Day of '82, as Oxley noted. The Reagan Team also pursues several foreign-policy goals with clarity and determination. Can't recount those here. No space.

What suddenly vanishes are the ECONOMIC plaudits. And they will not return for close to two years. Interest rates will not drop. Inflation WILL drop — three times faster than those artfully judicious January 1981 projections — and become an unplanned victory that brings its own defeats. Jack Kemp and other "just cut taxes" activists will not know what to say as interest rates fail to come down six, eight or 10 months after their three-stage 25% tax-rate reduction agenda is made law.

7. No Battle Plan Survives Extended Contact with the Enemy

A new recession is underway. It starts the very month Reagan's tax agenda cruises to victory. (Long-time Republicans still zing Carter's recession — while not mentioning how Reagan's lasted three times as long.) The stock market is tanking, as always happens at or near the onset of a slump that shreds company profits.

In an admission of economic policy defeat by one Democrat turning to another, President Carter appointed Paul Volcker Federal Reserve Board Chairman in October 1979. Monetary policy veered wildly during 1980, causing a short but violent GDP drop and then stopping it just as quickly. Inflation quit; then it fired right back up.

It has taken Volcker and his allies nearly two years to realize how stiff the anti-inflation medicine needs to be. Now it comes in fire hoses, rather than spoonfuls.

The Fed is under assault from supply-siders. They claim the '81 income tax cut should've been made retroactive to January. During the tax fight, there were few such warnings that it might not deliver in the form being considered. On October 1st, the first stage — 5% — takes effect. And the effect is hard to detect.

Other economic events are unraveling the gain-without-pain agenda. The jobless rate will reach 8.5% in December, versus the CEA estimate of 7.7%. No Congressman or Senator of either party says so in their Fall '81 newsletter but: Before tax-rate reductions can make their mark, inflation will need to be wrung out.

British Conservatives are not surprised. Most of them knew "there is no example of an inflation being ended without some period of economic contraction." And Mrs. Thatcher is 18 months ahead of Reagan in slogging through the political mire.

The American public does not believe the statistical evidence that inflation is losing steam. And joblessness is back to the levels of 1975. Looks like an '82 revival is falling into the laps of Democrats! No point in their learning from the Carter Years now.

Instead, castigate the still-new Administration for rising joblessness along with how it automatically escalates the budget deficit. (Higher federal outlays for food stamps, unemployment relief, and so on.) And use BOTH issues to put ALL Capitol Hill GOPers into a vice. Driven by a bipartisan fear of red ink, some of those officeholders can be turned against the tax bill they cheered not six months earlier.

How can the Reagan team surmount this Democratic logic and push without looking like ostriches? And how can the President's operatives keep the true believers — a group that includes the President himself! — in the tent without themselves falling back on blame-oriented dogma?

The President has already told anxious aides and top Senate Republicans that, in a choice between the scheduled tax-rate cuts, a sustained rise in military spending, and balancing the budget by 1984, he'll let the latter objective go. A painful step for him, granted. Then again, he doesn't need to face angry voters in 1982.

Wanted, by Republicans of all stripes: An explanation that evolves with these setbacks yet doesn't echo the supply-side chorus of "we want our Maypo!"

On December 9th, 1981, Council of Economic Advisors member William Niskanen rises to the challenge. He does so via a method exceedingly rare in Washington — the deployment of intellectual honesty: "The simple relationship between deficits and inflation is as close to being empty as can be perceived," he tells an American Economic Institute symposium.

Whoa! A White House economist is taking on Milton Friedman, the Capitol Hill Democrats, and many of his own peers? "There are no necessary relationships between the deficit and money growth... Evidence doesn't support the assertion that deficits crowd out private borrowers..." What's going on here? "The economic community has reinforced an unfortunate perspective on the deficit which is not consistent with the historical evidence."

Deficit projections have done nothing but rise since Reaganomics became U.S. policy, and Niskanen makes a choice: He'll "tolerate deficits of these magnitudes" rather then reinflate the money supply or backtrack on the tax cuts. "Other things being equal, I would like to see lower deficits too; but other things are not equal."

Put yourself in the Grand Ol' Elephant's shoes. What should a pro-Reagan operative do for 1982? That's a useful exercise for present-day Operatives who assume that nothing but glad tidings can be expected from the Tax Cuts and Jobs Act of 2017.

8. Don Regan Could've Retired — to Accolades — Two Years Sooner

One or more Reaganites have to appear in broad daylight with a credible context for sky-high peacetime red ink. Bill Niskanen steps up. A $200 billion budget deficit, he says, is less odious than any of its reputed remedies. And, whatever you may think of economists, it's a plus when one is available to take on THIS kind of mission.

Let's sharpen it. Someone — or some set of Someones, as long as they aren't flunkies or hacks — on the President's team has to put forth realism and show resilience. They need to do that while dodging the most common unarticulated malady of Washington: Intellectual Dishonesty. What's that? Uttering statements that everyone assumes YOU know to be a rancid stew of delusion and flim-flam.

Additional spadework is underway at Treasury. This Cabinet department has a tradition nobler, and certainly longer, than most national organs. When George Washington was President, Alexander Hamilton had hundreds of employees, while his ideological rival — Thomas Jefferson at State — had to make do with six.

Who's in charge at Treasury now? Someone as tough as Volcker. A guy who doesn't deal in theories. (And a fellow who will one day learn that First Lady Nancy Reagan relies on an astrologer to juggle presidential scheduling options.) In this new year of '82, Treasury's top dog will turn to veteran civil servants who have long been itching for a chance to fix holes and plug leaks in the Tax Code.

"His upbringing was modest. His father was a policeman." This man earned a law degree from Harvard and, as a Marine in World War Two, "came unscathed through some of the fiercest battles of the Pacific campaign. In 1946 he joined a brokerage later known as Merrill Lynch as a trainee. In 1971 he was made chief executive" and 10 years later "entered government as Treasury Secretary."

The man is Donald T. Regan; the quotes are from the Obituary that appears in the June 21st, 2003, issue of *The Economist*, the cheeky know-it-all London weekly magazine that, decade after decade, keeps calling itself a "newspaper."

Unless you worked for him (I didn't), no living Republican puts in a good historical word for Don Regan's four years at Treasury. Why not? Mainly because, after 1984, that track record of competence and clarity will make him White House Chief of Staff. And few tribulations ever arrived so disguised as tributes.

That job should never go to anyone who doesn't understand the national press in the way a lion-tamer relates to his co-performers. Ronald Reagan's first-term staff boss — James A. Baker — did. He "managed" the Washington press corps, and it's tough to manage egotists and saboteurs over whom you have no control.

In contrast, Don Regan, after four solid years at Treasury, viewed his new role as one more large-enterprise challenge: Push subordinates to execute while staying out of the news (ha-ha). External communications went to Hell; internal communications became top-down and — this isn't a typo — funnel-visioned. The Iran-Contra scandal took shape because Regan's trusted aides over-controlled domestic policy processes and missed the high-risk maneuvers coming out of the National Security Council.

Don Regan lasted two years as Chief of Staff. He found the President to be a distant and aloof figure (much like Maureen Reagan told a reporter her father had always been). He also struggled against the First Lady's reliance on "an unknown woman in San Francisco who believed that the zodiac controls events and human behavior..." See this May 9th, 1988, account of his radioactive ***For The Record*** memoir.

But this chapter and the subsequent one on 1982 are about the first Reagan term, not the second. And part of this draft's job is to show that Don Regan was a skilled and loyal Secretary of the Treasury vital to the victories of Reaganomics.

REMINDER: What you are reading is a working draft for a 2nd-edition book that will recast both 1981 and 1982. So as not to leave you hanging, the conclusion of THIS document borrows from the '82 chapter, which you can find later this year using www.ExactingEditor.com/Eighty-Two.pdf

Both chapters on Reaganomics are part of Gregorsky's GOP-history series. Single-year accounts include www.ExactingEditor.com/Seventy-Four.pdf and www.ExactingEditor.com/Seventy-Five.html. For book sources, use http://exactingeditor.com/Elephants-on-the-Web.pdf

9. "[W]e have in place a sound long-run tax system for the 1980s"

As 1982 opens, the assault on Reaganomics — from media, Democrats, old-line civil-rights lobbies, academics and NPR somnambulists (as lifeless as they are clueless) — is fierce. At least a third of the House GOP has the heebie-jeebies. Will the Reagan Revolution be — to borrow a line from Churchill — "strangled in its crib"?

Donald T. Regan isn't one to buckle. In fact, back in September, Secretary Regan had been with his President in saying NO. No to what? To the very first push by Senate Republican honchos to dampen the military buildup while considering tax hikes.

So much has gone wrong since the Economic Recovery Tax Act was signed. Not one of the Senate Republican leaders knows how to claim the high ground.

And the supply-siders are into blame-shifting; they zing the Fed and/or claim that a bigger and quicker tax cut could've avoided the recession. (Sure, just like more exercise along with fewer donuts would've let you dodge heart-bypass surgery.)

At such times, a President needs resourceful articulators, not egotistical blame-gamers. Don Regan is one of the former — purposeful, innovative. And it's time you saw how. On February 6th, 1982, the Secretary takes the Treasury podium to say:

> **For the first time, we are asking the right people to tighten their belts — the Federal government... More importantly, we have in place a sound long-run tax system for the 1980s, one that will promote rapid growth of income, savings, investment and employment for years to come. That tax system, with a healthy economy, will generate as much revenue as government should reasonably be allowed to spend...**

Nice summary? At the time, it felt like a lifeline. Nasty setbacks need contexting.

Don Regan is on the case. As the President's lead economic policy-maker, he refers to two "surprises" — "the recession and the drop in inflation." He casts them as "[o]ne bitter pill, and one piece of candy, which together have significantly decreased revenues to the point of causing large deficits. The recession is temporary, and the decline in inflation is most welcome."

There are many ways to reiterate and repackage what you just read, and all of them will be helpful to various Republicans during the storms of 1982.

That same week, the Administration budget proposal is sent up the Hill — and over the cliff. With a Fiscal 1983 deficit projection of $91.5 billion, the plan is deemed "dead on arrival" by Capitol Hill Dems. That's the easy part, and they play it well. Compromises will emerge, even as the original Reagan growth-promoter — a deep three-stage cut in personal tax rates — remains law. That must not be altered.

Leading Republicans and senior White House operatives agree to bipartisan talks. They sprawl to the point of being dubbed "the Gang of 17." Don Regan and his Treasury specialists stand by the President's 1981 agenda. But they don't dig in.

They provide Senate Finance Committee chair Bob Dole and Budget Committee chair Pete Domenici with "revenue enhancements" — yes, this phrase dates from these months. It's a toolkit of tax hikes that can offer the Fed a solid reason to bring about dramatic drops in interest rates and thereby escape the recession.

This draft chapter won't go further into 1982's psychodrama. Pacing matters — especially for a chapter making use of current tense. But here are the points that need to stick, if you're a GOP operative all these decades later:

- The most enthusiastic proponents of "ERTA" either forget or distort 1981 and '82. No one got everything right. Not the overrated Milton Friedman; not the supply-siders who wailed that TEFRA tax hikes would block recovery; and not the CEA projectors who said inflation would, in 1984, still be running at 5%!

- Yes, Paul Volcker performed well — after two years of Federal Reserve flailing. Yes, Bob Dole indexed the federal income tax-rate scale starting in January 1985, thereby protecting the Kemp-Reagan achievements against inflation for a long time after. But Senator Dole's TEFRA turned out to be nowhere near as firm on spending reductions as he claimed during that bill's 1982 rollout.

- Dwight Eisenhower stressed it during a real war: Rely on Planning, but Never Trust Plans. Same goes for any economic scenario and especially the timetable. To dig in it too deeply and for too long is to risk sounding like a kook or a whiner. An economic policy is built on tradeoffs, and it can never be a schematic.

And, for senior Beltway Republicans, their problem — after July of '81 — was the opposite of Too Much Theory: They considered throwing in the towel on the core principles of Reagan and ERTA. Do that, and you'll be watered-down Democrats.

10. "One Bitter Bill and One Piece of Candy"

In floodlighting the double surprise of recession plus a plunge in inflation. Don Regan at least IMPLIED a linkage. To anyone but ideologues, the linkage was a lead-pipe cinch. And the force behind both, in this early Reagan period, wasn't Congress.

An irreplaceable book appeared in 1989. Title: *The Deficit and the Public Interest*. Written by? The late, great academic (and keen writer!) Aaron Wildavsky and his Democrat co-author Joseph White. Among their resources — 112 interviews with White House, OMB, congressional and agency people. The book's subtitle: "The search for responsible budgeting in the 1980s." And you can access the entire book — page by page, numbered — free, courtesy of Wildavsky's academic publisher.

Resourceful policy analysts of my generation and the one prior knew Wildavsky the way Wikipedia describes him — "a prolific author, writing or co-writing 39 books and numerous journal articles..." And savor this part: "Five more books were published posthumously — bringing the total to 44." Weak writers die having wanted to publish; but Wildavsky left friends and successors with surplus building blocks.

The Wildavsky-White account of 1981 stresses the belated resolution of the Paul Volcker Fed. After a chaotic tighten/loosen/tighten sequence during 1980 left them "worried about establishing their credibility," Volcker & Company made ready to compensate on the restrictive side. Man, did they.

The notion that a quicker or larger income tax cut, during 1981, could have offset that level of Fed firmness is ridiculous. But one still hears it from that era's surviving infighters, especially Larry Kudlow. With Kudlow having moved his natural bullishness from CNBC to the National Economic Council, any desire to relive the 1980s by sugar-coating 1981 and '82 — even though he was right there, on the front lines, as David Stockman's deputy at OMB — could function as a trap.

Would you agree that President Trump does enough overselling for the entire executive branch? If so, his economic aides need to trail along — with hedges. For every economic-policy enthusiast in your official family or political organization, be sure to hire or otherwise recruit at least two proactive realists.

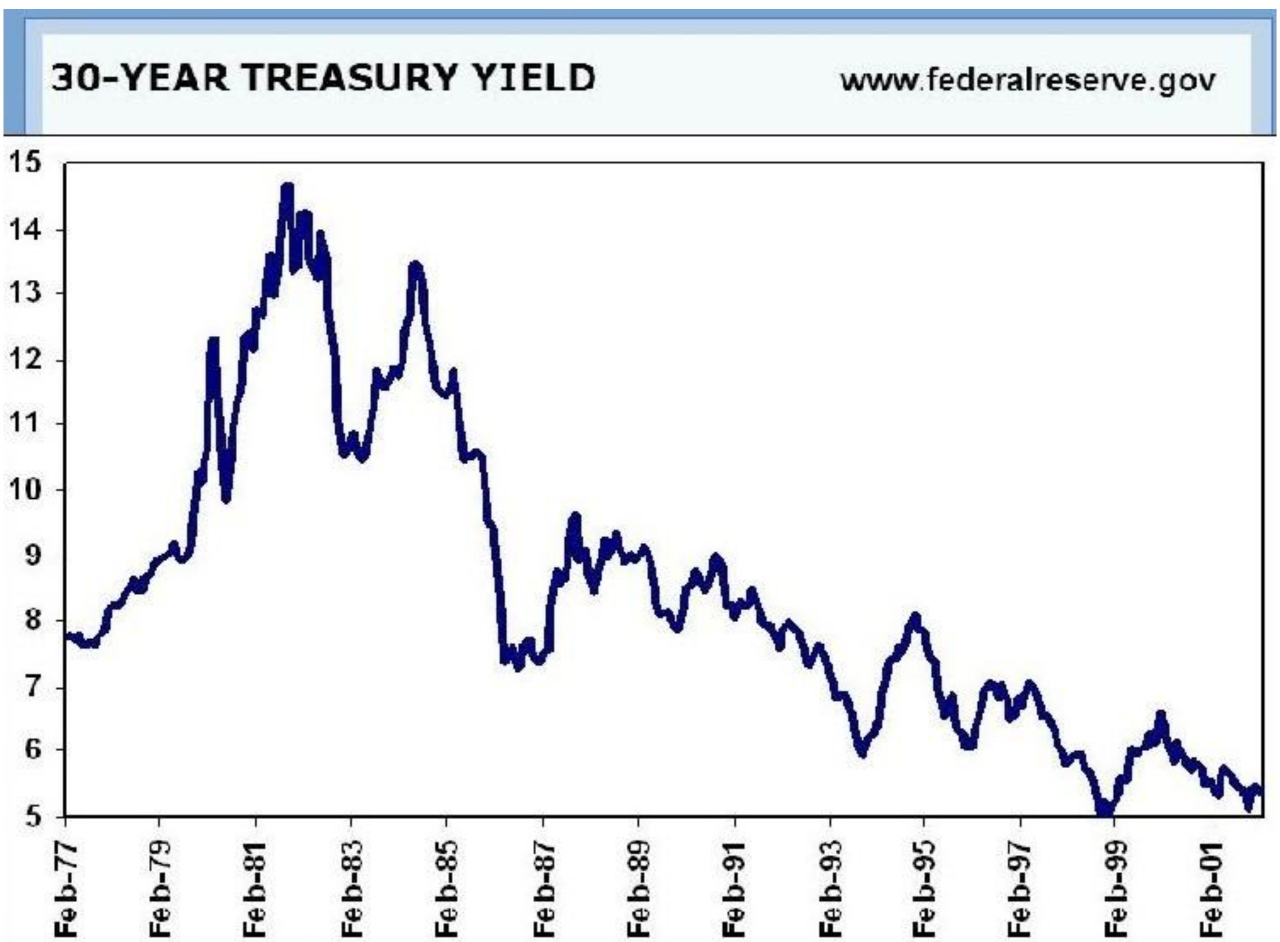
Back to Wildavsky and White: "If fiscal policy didn't credibly offer relief for bond-olders," they say on page 189, "the Fed had to work even harder to show its dedication to reducing inflation by crunching the economy. From the beginning of 1981, Volcker had maintained and would continue to insist that future deficits forced him to tighten money immediately."

Supply-siders retorted that another recession would — immediately — blow a hole in the deficit. They were correct. But they had no answer to Volcker's conclusion that it takes a big recession to vanquish a great inflation. For his part, in that February 1981 speech to Congress, the new President wanted to transcend the tradeoff:

> **In the past we've tried to fight inflation one year and then, with unemployment [having] increased, turn the next year to fighting unemployment with more deficit spending as a "pump-primer." So, again, up goes inflation. It hasn't worked. We don't have to choose between inflation and unemployment — they go hand in hand. It's time to try something different, and that's what we're going to do.**

As 1981 gets going, the Volcker Fed is also ready for "something different." But it's not the use of deep tax incentives to increase the supply of goods on the theory that price hikes will cool down because of a surge in investment and production.

Instead, the Fed uses every tool at its disposal to increase the cost of borrowing, and it encourages banks to do likewise. The result is an economy-wide bulge in yields that surprises and disorients nearly everyone — ESPECIALLY those who think nothing can be done to get inflation back to pre-Vietnam, pre-Great Society levels.



During Reagan's first two years, the jobless rate climbs to nearly 11%. During the combined Carter and Reagan slumps, 5,000 auto dealerships disappear, and some new homeowners end up with a 30-year mortgage costing them 16% per annum.

As we'll see in the chapter on 1982, inflation's momentum quits during the Spring. Default tremors in the international debt market then combine (despite the slump!) with Congress's bipartisan tax hike to allow big drops in interest rates. A few of those rates are controlled by the Fed; others respond to the collapse in economic demand. From the third week of August to the day of the '82 elections, the Dow Jones Industrials will soar 38%. (The next chapter lets us relive ALL of the corollary confusion.)

Recessions always end. The stock market foretells the recovery. The critical question for 1983 then becomes: "What KIND of recovery and expansion will we have once inflation and all its weird psychological effects are out of the way?" Thanks to the 1981-83 tax-rate reductions, secured by indexing the income tax-rate scale on January 1st, 1985 (brought about by Senator Bob Dole), a mighty fine one.

Everyone agrees on this point: Unlike many other GOP officeholders, President Reagan did not oppose Paul Volcker's decisive stretch of nosebleed interest rates. That element of his "traditional" Republican worldview kicked in. At the same time, he refused to temper the military buildup or tamper with the three-stage tax cut. Don Regan and Bob Dole were vital to helping him avoid major errors during 1982.

The congressional campaigns of '82, the fight over TEFRA, how it divided both parties in the House, and Ronald Reagan's evolving role as Party leader, deserve their own chapter. Events will finally make good on his February 1981 pledge of good jobs with stable prices. But it will be hard to "prove" an inflation-free expansion until the economy has made its skeptic-vanquishing way to 1985-86.

Planned for August 2018 — www.ExactingEditor.com/Eighty-Two.pdf

Buy the Book — https://www.amazon.com/dp/1537146696/ref=cm_sw_su_dp

As for whether the Reagan-Kemp 25% three-stage reduction in federal income tax rates "paid for itself"? — yes, it did. This writer produced the cleanest case for such a verdict as part of a 1990 newsletter.

Airheads in 1999 vs. the Wary Eyes of 2018

Here in the Spring of 2018, even after a bull-market run of nine years, it's not unnatural to be impressed by a Dow reading of 24,000. What's easy to forget is the appearance, nearly two decades ago, of two bull-steeped books — *Dow 36,000* and *Dow 40,000*.

To avoid distractions, the author names are left out. But those writers were not dismissed as flakes in 1999. Indeed, one of the wackiest commentaries occurred on October 23rd of that year. Motley Fool regular **Ann Coleman** reviewed one of those two hyper-optimistic books. Her testing tool seems to have been a $5 calculator...

> Let's do the math. If the Dow is at approximately 10,000 now, it would have to quadruple to reach 40,000, right? That means it would have to double twice: 10,000 x 2 = 20,000, 20,000 x 2 = 40,000. So the book is projecting that the Dow will quadruple in the next 17 years **[she means from 1999 to 2016].** Let's see, that means it would have to double roughly every eight years. The rule of 72 lets me do a quick and dirty estimate of the growth rate. Seventy-two divided by 8 is 9. So ***Dow 40,000*** is projecting that the Dow will grow by an average of 9% per year."

And she was fine with that. Because? "[W]e are seeing...an economic revolution that will have the same impact on society that the industrial revolution had. I think the world has reached a confluence of science, communications, transportation, and...global democracy. Barring major wars or unforeseen planet-wide disasters, and possibly even in spite of them, over the next 20 years we will finally see the human potential to create prosperity unleashed. So, yes, I liked the book; I just didn't like the title."

What the late '90s "unleashed" was joyful financial incineration. ***Dow 40,000*** wound up in the same national dumpster with $140 billion of "smart" venture capital. (It's never wise to bank on anyone whose sole attribute is the word "smart.")

This is 2018, and those of us who are 60 and up will be lucky to see "Dow 40,000" by the time we shuffle off to Buffalo (although my own home town happens to be Rochester).

Now for the good news. It comes from my favorite investment analyst, **Simon Hamilton** of the Reston, Virginia-based Wise Investor Group.

On their April 8th radio show, Hamilton recommended a display of blogger respondents that showed anything but goofiness. Those of you who don't own individual stocks or track markets can skip the 2,600-word collection, most of which tackles this inquiry: **"Assume you are advising a pension fund, endowment or foundation. What is a reasonable long-term expectation for real returns for a well-diversified portfolio?"**

Just one quote — from Tom Brakke — serves to show today's temperate consensus:

I recently asked a group of over a hundred large asset-owners whether they expected the average [annual investment] returns of those in the room to exceed 5% [in] real [terms] over the next 10 years. Perhaps five hands went up. I'm with [the others]; I think it will be extremely hard to get to 5%, given the low rates on bonds and the high valuations on stocks and private equity. So I'll say 4% real over the next 10 years, with a bias lower than that.

Simon Hamilton's conclusion is that financial bloggers — the ones serving an array of clients, that is — REALIZE how relatively "easy" stock investing has been since 2009. That's why they're allergic to straight-line upsloping projections from Dow 24,000.

Who ELSE is? And what will seasoned GOP political operatives be doing, during 2018, to turn the economic setbacks of 2019 and 2020 into opportunities to shred the toxic cook-books of Zuckerberg, the Bezonian *Post*, Sanders, Schumer and the House Democrats?