The Tell-Tale Stockman

Probably no issue of The Atlantic monthly sold more copies than the December 1981 issue. It featured the now-famous Trojan Horse comment by Office of Management and Budget Director David Stockman. But this article is more revealing than is implied by the mass media’s myopic focus on Mr. Stockman’s “revealing” statement. During the course of this article, readers see Stockman’s initial ideal of “equitably” cutting all special-privilege programs – long-time Republican favorites as well as social welfare transfer programs – give way to horse-trading politics and to Washington’s status quo. Mr. Stockman details how the spending cuts were less than they appeared (they were cuts only from hypothetical numbers) and how the tax cuts ballooned as Congress “gave away” more than Stockman imagined. The result, as Stockman sees it, is an impossibility of achieving a balanced budget. When he agreed with the suggestion that the Reagan program was “trickle down” economics, Mr. Stockman surrendered himself to an old Democratic-Populist electioneering insult. The present system of massive Government is a genuine “trickle down” system: income taken from the middle class by the Government is allowed to “trickle down” to the most politically powerful special-interest groups.

In the December issue of The Atlantic magazine, a remarkable article entitled “The Education of David Stockman” appeared. Written by William Greider, a 13-year veteran of the Washington Post, this article is a fascinating look at Washington politics through the eyes of Office of Management and Budget (OMB) Director David Stockman. Readers of Research Reports would benefit by reading this important 24-page article. Those who do, will be surprised. The article bears little resemblance to the out-of-context quotations widely reported in the press. Perhaps skillfully manipulated by Washington’s politically powerful, whose shallowness is revealed in the Stockman piece, the media totally misdirected the public’s attention. Contrary to most reports, this article is not an exposé of Director Stockman. (See accompanying article for further comment on this issue.) Instead, it is an almost sympathetic view of the slow death of David Stockman’s idealistic hope for getting control of the Federal budget. That hope was killed by status quo politics in Washington. The villain in this melodrama certainly is not Stockman. Rather, the villains are the pork barrel politicians in Congress; the image-builders in the White House; and the special-interest lobbyists who feed at the public trough. After the initial shock of the Budget Director’s candid remarks wears off, Mr. Stockman emerges as the hero of this entire saga, albeit a somewhat tainted one.

Based on 18 interviews with David Stockman between December 1980 and August 1981, the article takes the reader from David Stockman’s boyhood home on a farm in rural Michigan to Washington D.C., the seat of political power in America. Early in the article, Mr. Greider describes Mr. Stockman as a man who went to Washington “inspired” with an almost naive idealism, based on the notion that costly Government programs and the entrenched Federal bureaucracy could be equitably reduced and reformed through the political process.

Early in the article, Mr. Stockman outlined the guiding principle of his plans: “We [the administration] are interested in curtailing weak claims rather than weak clients, the fear of the liberal remnant is that we will only attack weak clients. We have to show that we are willing to attack powerful clients with weak claims. I think that’s critical to our success, both political and economic success.” The plan, then, was: to cut not only wasteful social welfare programs but also the special-privilege spending that channels taxpayers’ money into the pockets of politically powerful individuals and institutions. In short, Stockman believed he and the administration would change the Federal establishment by across-the-board budget cutting.

As we reported in our September 14, 1981 analysis of supply-side economics, the Reagan plan has four main elements: (1) tax cuts, (2) spending cuts, (3) monetary restraint, and (4) deregulation. As Director of OMB, David Stockman was principally responsible for developing the specifics of tax cuts and spending cuts.

Budget Cuts

The article reports that President Reagan and the Cabinet generally approved of David Stockman’s initial broad goal to cut almost $40 billion from the 1982 Federal budget. Political support for broad, general expressions of fiscal responsibility is not difficult to get. But fiscal prudence is popular only as long as it does not touch the favorite spending programs of the politically powerful. Most politicians are driven by immediate self interest. For each, his programs, unlike the “boondoggles” of others, are seen as necessary and vital to the Nation.

Mr. Stockman’s job was to cut $40 billion of spending from a $700 billion budget, a task much more difficult than it first appears. As the budget process progressed and the proposed cuts became more specific, practical politics and the special interests moved in to protect their “vital” programs. The accompanying table shows how each Federal dollar of spending is allocated. Program by program, the White House declared more areas of the budget off limits to “the Stockman treatment.”

Early in the process, President Reagan declared that the “social safety net” would remain intact, which excluded about 75 percent of the budget’s largest component – transfer payments. As the table shows, transfer programs take about 48 cents of each Federal budget dollar. Defense spending from the start was “off limits” to Stockman. President Reagan believes he was elected to,
THE FEDERAL BUDGET DOLLAR

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* Seventy-five percent declared “off limits” by President Reagan.
† Will increase to roughly .30.
** Assumed to remain constant.
† † Most of the $40 billion in spending cuts would have to come from these sources.


among other things, rebuild America’s military might. To Stockman, whose job it was to cut spending, this meant that defense expenditures would increase from their current 25 cents to 30 cents of each budget dollar. Interest on the national debt is another uncontrolled expenditure. Short of a radical currency reform, there is little any administration can do in the short run to reduce this expenditure, which takes 10 cents of every budget dollar. These limitations left Stockman with only two major areas in which to cut $40 billion: (1) the politically sensitive area of grants to states and local governments, and (2) traditional governmental operations, such as national parks, the FBI, the foreign service, the weather bureau, etc.

David Stockman soon discovered that even this remainder of the Federal budget did not lend itself well to the ideal of equity in budget cutting. His battle over funding the Export-Import Bank is one example. By granting low interest loans to foreign customers for the purchase of U.S. products, the Export-Import Bank subsidizes some of the Nation’s largest corporations. About two-thirds of the Bank’s loans finance the exports of major firms, like Boeing, General Electric, and Combustion Engineering. Mr. Stockman originally wanted to cut at least $751 million from the Export-Import Bank’s funding, inasmuch as the Export-Import Bank’s subsidy of big business is one of the best examples of a weak claim but strong constituency item. Mr. Stockman took a pounding. Two influential voices within the administration argued for the preservation of the Export-Import Bank. David Stockman said that Commerce Secretary Malcolm Baldrige and U.S. Trade Representative William Brock “fought, argued, [and] pounded the table” to keep the funding going. Republican Senator Nancy Kassebaum from Kansas (where Boeing is a major employer) led pro-Bank Senate forces to victory over the Stockman attempt to curtail its funding. The Senate approved an additional $250 million for the Export-Import Bank. In the House, according to Congressman Ron Paul (R, TX), “Within 24 hours they [big business lobbyists] switched the votes of 100 Congressmen and put $1 billion back into the Export-Import Bank.”

Stockman’s defeat on the Export-Import Bank was typical of the long line of defeats he suffered trying to reduce special-privilege spending. Many of the larger expenditures were approved in an effort to keep the Reagan team unified. The price (ultimately to be paid by U.S. taxpayers) of keeping Senate Majority Leader Howard Baker of Tennessee, a loyal Reagan “Revolutionary,” was a continuation of funding for the fast-breeder nuclear reactor at Clinch River, Tennessee. On this Stockman displayed deep political prowess: “I just got out of the way. It just wasn’t worth fighting. This package will go nowhere without Baker, and Clinch River is just life or death to Baker.”

The behind-the-scenes deals continued. Once in office, Department of Energy Secretary James Edwards, appointed by the President for the reported purpose of dismantling the DOE, began lobbying for the preservation of the multi-billion Synfuels boondoggle. Senator Russell Long of Louisiana lobbied the White House for Reagan intercession to save the Red River public works project in Louisiana. The closer the budget package moved toward final Congressional approval, the more that pressure to compromise grew. Mr. Stockman viewed these events with disgust, “Do you realize the greed that came to the forefront? . . . The hogs were really feeding. The greed level, the level of opportunism, just got out of control.” As for the “principles” of the White House image men, his disdain was plain, “They don’t care, over in the White House. They want to win.” Win they did. But it was a Pyrrhic victory. While the White House racked up one political miracle after another, Stockman’s ideals and the chance for eventually balancing the Federal budget went down to defeat.

** Tax Cuts

While the spending battle was being fought, the administration also was engaged on another front, the battle to cut personal income tax rates across the board 10 percent in each of 3 years. In the article, Mr. Stockman is critical of some of the supplyside economists who emphasized the effects of the tax cut component alone. At one point, David Stockman offered, “Laffer sold us a bill of goods [that tax cuts alone were enough] . . . Laffer wasn’t wrong — he didn’t go far enough [Laffer neglected to stress spending cuts].” Later Stockman expanded, “I’ve never believed that just cutting taxes alone will cause output and employment to expand.” He wanted major spending cuts to accompany the tax cuts that were advocated by Laffer and Congressman Jack Kemp. Director Stockman’s “crime” was to be skeptical of the politically appealing promises of certain overzealous supplyside advocates that tax cuts alone could restore a sound domestic economy.*

As many now know, Congress approved a 25-percent, 3-year personal income tax rate cut, as part of a “Christmas tree” package containing many other tax cutting provisions. These additional provisions greatly concerned David Stockman, because he believed they would sharply reduce Federal tax revenues and thus raise the budget deficit. In the end, the tax cuts were determined not by the weight of economic argument but by the process of a political bidding war. The bidding broke out between Republicans and Democrats, who tried to “out tax cut” each other to win popular support. No wonder Mr. Stockman developed serious doubts about the Reagan program as it began to emerge from Congress.

* When the “Laffer Curve” first began to receive public attention a few years ago, we analyzed the idea in an article entitled “The Lessons of the Laffer Curve,” Research Reports, August 7, 1978. We concluded that while tax rate reductions probably would be beneficial to the economy, “The level of Government spending seems to be the key issue, not the level of tax receipts per se.”

** The Wedge

When the tax cuts and the spending cuts were added together, Stockman did not like what he saw. The spending cuts were substantially less than he had wanted. Indeed, many of the purported spending cuts appeared as smaller outlays only in relation to Jimmy Carter’s planned large increases. They were, in most instances, increases from 1980 nominal amounts and little changed after adjustment for the loss of the dollar’s buying power. Federal spending would continue to be too high. Many of
the weakly defensible spending programs Stockman abhorred were to remain fully funded, having had politically powerful clients.†

After the Congressional bidding war, the tax cuts had gotten far out of hand. The White House, in its effort to win political victories, made too many concessions. As a result, future tax revenues probably would be substantially less than Mr. Stockman had looked for. In his view, the wedge of practical politics had prevented a closing of the wide gap between revenues and expenditures. Indeed, it had widened the gap, creating the prospect of even larger Federal deficits in the near future. When the political dust finally settled, David Stockman saw the cost of it all. In political concessions, special-privilege spending, tax breaks, subsidies, loopholes, benefits, grants, and other assorted Federal gimmicks, Stockman saw that the status quo — not the Reagan administration or Stockman's ideals — had emerged victorious from the election of November 1980. Mr. Greider expressed Stockman's sentiments. "Politics, in the dirty sense, had prevailed."

**Trickling Nonsense**

Perhaps the most unfortunate statement Stockman made in this otherwise valuable article was his agreement with William Greider's assessment that supplyside theory was merely a disguise for the old Republican unpopular doctrine of "trickle down economics." Webster defines trickle down theory as "an economic theory that financial benefits given to big business will in turn pass down to smaller businesses and consumers."

"Trickle down" appeared late in the article. By that chronological time, Mr. Stockman's ideals about how to cut the budget had been severely compromised by Congress and some people in the White House. He was disgusted with the entire process. He felt supplyside economics had betrayed fiscal prudence. (In addition to his remarks about Laffer quoted above, Stockman had said that there were no "true conservatives" in Congress.) No matter why he said it, agreeing that supplyside economics was "trickle down" was a mistake. It gave the greedy politicians who had ruined Mr. Stockman's ideals an issue they quickly seized upon in order to redirect public indignation from their own embarrassing actions (as revealed by Stockman) to this straw man issue.

"Trickle down," according to William Safire's *Political Dictionary*, is not standard Republican doctrine or orthodoxy. "Trickle down" is a political pejorative used to humiliate the opposition. Safire traces the term to William Jennings Bryan's 1896 "Cross of Gold Speech." Bryan in his speech to the Chicago Democratic convention condemned economic systems that would give benefits to "the rich" while the wealth "leaked through" to the "working poor." The Democrats picked up on this notion in the 1932 Presidential campaign. "Trickle down" was Rooseveltian invective hurled at Herbert Hoover's programs to restore prosperity in the country by aiding the banks and corporations. Thus, "trickle down" — contrary to Stockman's and Greider's opinion — is not an old Republican doctrine, it is an old Democratic-Populist insult.

The condemnation of Stockman by Congressional liberals and the media may give the impression that the Reagan program in fact radically alters the flow of income in this country. Not so. We related above Mr. Stockman's assessment that the status quo had won the political battle of spending flows. Generally, the same groups that benefitted from the Federal Government's big-spending programs under President Carter and his predecessors will continue to benefit under the Reagan budget package. Add to this the fact that in constant-dollar terms total Federal spending will change little during fiscal years 1982, 1983, and 1984, and it becomes clearer that the status quo has been preserved for the most part. In short, taxpayers' income will continue to "trickle" pretty much in the direction of the past.

And what is the direction of the "trickle"? Let us see "how the world works" (a favorite Stockman expression, evidently taken from supplysider Jude Wanniski's book entitled, *The Way the World Works*). As many liberal Democrats have proudly asserted, the present U.S. system is one of substantial income redistribution. This system they boast, took years to build (ever since the New Deal), and they decry President Reagan's attempt to change it. The key force in this system is a massive Federal Government. Before Government can redistribute income, it must gain control of income. It uses two chief methods to do this: (1) the progressive income tax (soak the rich), and (2) a deliberate policy to inflate (in the name of lowering interest rates and stimulating production and employment).

In practice, as studies show, the great majority of "the rich" are able to escape through loopholes the impact of the graduated income tax. Capital is the source of much of the income of "the rich," but it is also portable. Since "the rich" (just like anyone else) wish to be taxed as little as possible, they move their assets into investments beyond the reach of the tax collector. As supplysiders have emphasized, such tax-induced redirection of investment impedes economic progress. "Soak the rich" schemes are totally impractical anyway. Even if a perfect 100 percent effective tax were devised to redistribute the income of all the so-called rich, the tax revenue thus generated would constitute only a small percentage of the total amount needed to finance the Federal mega-budget. In terms of total amount, by far the greatest portion of the Nation's income flows to the vast middle class.

In practice, the progressive income tax has hit the middle class the hardest. One of the effects of chronic inflating has been to bloat nominal incomes and push middle income groups up into higher tax brackets (bracket creep). The middle income earners now use in brackets designed years ago to "soak the rich." But unlike the rich, the middle class cannot so easily escape the tax man. Most middle class members receive income in the form of reportable wages for direct labor, and there are few loopholes for wage income. In practice, the income tax purportedly designed to redistribute income from the rich to the poor has ended up bleeding the middle class and keeping the "working poor" poor.

As disastrous as the progressive income tax scheme has been to the middle class, the consequences of inflating probably are worse for them. Because the Federal politicians want to appear to provide more goodies to their constituencies than they dare try to collect taxes to pay for, they pressure the monetary authority to print up "a little extra" money to fund the Government's deficit more easily. Consequently, all of the dollars in circulation tend to lose buying power. This purchasing power loss takes time, and it does not occur proportionately for all members of society. During the process of inflating, many people are fooled as the depreciating dollars diffuse through the economy. Those groups who get first use of the additional dollars get more goods and services for them. The groups at the end of a succession of trans-

† The comparison to Carter's budget proposals was stressed in "Reagan's Gamble," *Research Reports* for February 16, 1981, after the President provided the broad outlines of his fiscal program.
actions get less. Since the Federal Government initiates the process, it gets first use of the money. Among the first users are the bureaucrats and politicians who are on the Government’s payroll. Also early “in line” are the big banks who handle Government securities and others’ money. The banks get to use the dollars before they are worth less. Moreover, their earnings are based largely on volume: the more “dollars” out, the bigger their volume. Government contractors and consultants also stand near the head of the line. Far down the line are the middle class and the working poor.

Who gains by the existing system of income redistribution? Those closest to Government — its influential friends, politicians, bureaucrats, holders of monopoly privilege, labor unions, bankers, large debtors, etc. Those who lose the most are the politically weak, including all workers (lower and middle class) whose incomes lag behind rising prices, retired people on fixed incomes, and uninformed savers and investors who are still holding fixed dollar-denominated assets.

When all of the political rhetoric and pejoratives are stripped away, the brutal reality is this: the current system of income redistribution is a trickle down system. Perhaps this is why the press was so outraged at Mr. Stockman’s remarks. Perhaps he accidentally hit a raw nerve of the establishment. To the extent that supplyside economics is simply a restatement of the findings of classical economics, the trinkles — while important — are secondarily so. Creation of more wealth was the original focus of modern economics. It remains the central problem today. That is the focus of supplyside economics. “Trickle down economics” is 180 degrees from supplyside economics. “Trickle down” is based on the premise that wealth is a “given,” that it is unrelated to individual initiative, effort, and incentives, and that the Government’s role is to pass out the “goodies.” David Stockman evidently knows better. The furor over his remarks may serve to refocus his vision — and that of the rest of the Reagan administration — on the forest instead of the trees.

But in the end, the American people will get what they deserve. David Stockman was right when he concluded, “The 1982 election cycle will tell us all we need to know about whether the democratic society wants fiscal control in the Federal government.” If people want a system that benefits the general good instead of the special interests, the ballot box in 1982 may be a last chance for some time to send that message forcefully.

THE MYTH OF OBJECTIVITY: WHAT DID DAVID STOCKMAN SAY?

The recent controversy stirred by the pre-releases of the Stockman article in The Atlantic, illustrates the omnipresent problem of accuracy and objectivity of the news media. In the varied and sundry accounts of the words of Director Stockman, many often conflicting political stances had been verified or summarily vilified, before that issue of The Atlantic was available to the public.

The Stockman interview (even the word “interview” becomes suspect upon reading this 24-page historical narrative) has been broken and dissected into so many accounts that upon reading the text and comparing it with the various reports of several publications, one is inclined to wonder if there were more than one article on the same topic released to the press by The Atlantic.

Consider the range of these two quotes from national publications, which describe the effects of the article on the President’s economic program:

“The quote filled, 24 page article...reflected Stockman’s doubts about Reaganomics so clearly that the President’s own credibility seemed jeopardized...” (Newsweek)

“A careful reading of the Atlantic Monthly reveals that the budget director was neither as critical of the President’s program nor as cynical as many out-of-context news reports have indicated.” (Human Events)

Some of the more misleading reports came in the guise of presenting partial quotes as though they were a summation of a point made by Stockman. Time, in a half-page condensation entitled, “What Stockman Said,” has the following sub-heading and quote: “On his recommendation of cuts in Social Security benefits: ‘Basically, I screwed up quite a bit.’” Clearly, the implication is that Stockman made mistakes in his recommendation for Social Security benefit cuts. However, examine a lengthier version of the same quote from The Atlantic: “...basically, I screwed up quite a bit on the way the damn thing was handled.” In context, Mr. Stockman clearly was not expressing dissatisfaction with the recommendation itself but with the way he handled it. The difference is significant, and there are many more equally misleading quotes in a variety of publications.

A necessary protection against this type of misrepresentation is to be wary of media accounts of events, withholding judgment until one is able to gather and consider more pertinent information. In this instance, the possibility is readily available: read The Atlantic article yourself. Unfortunately, in most major news events that possibility is not available.

No source would be so bold as to claim complete objectivity. Objectivity is one of those myths that is constantly assailed by incidents such as the reporting of the Stockman article. Even those standard-bearers of reporting — the network nightly news programs — suffer from subjectivity and bias, inasmuch as they are forced to determine what is ultimately “newsworthy” and are restricted by time and the flow of events. This is obvious to us in the coverage they give to economic events.

Granted, no one is capable of giving perfect versions of news events; however, some methods render more accurate reports than others. Nothing can replace close scrutiny of conflicting ideas and points of view or the accumulation of essential factual information in the process of making a sound conclusion. Therein lies the raw materials for any attempt at making responsible statements, even in an area of swiftly shifting perspectives and ideas such as politics. To speculate on broken fragments, or to present foregone conclusions using only evidence that supports a particular perspective is to do a disservice to the public. The media reports on the Stockman article are succinct examples of partisanship on the part of the media.

Our article on David Stockman’s “interview” in The Atlantic is not as timely as others. But we think it has the advantage of being more accurate. That is the aim of all reports appearing in this publication.

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