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Defending A Mixed Economy

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Review of **American Amnesia: How the War on Government Led Us to Forget What Made America Prosper**, *by* Jacob S. Hacker and Paul Pierson

New York: Simon & Schuster, 2016

American Amnesia is a readable, somewhat breezy history of the Republican Party's war on government, written by two prominent political scientists. Their book, which focuses mainly on the 1980s and after, is not quite what the title conjures. One might expect an historical assessment of the role of the State in American economic policy and how the war on government lost sight of that history. A bit of that appears at the beginning, but not very much. Most of Hacker's and Pierson's book is a heavily factual account of the interest groups and money power behind the Republican Party from President Reagan forward, focusing on interest groups and politics rather than theory. This is good and interesting reading nonetheless.

Hacker and Pierson begin with a very brief effort to dismantle the idea that the Founding Fathers, James Madison in particular, were radical anti-government activists and that the Constitution reflected that judgment. Rather, they argue, the Constitution contemplated a partnership between markets and government, and one in which the government played a strong and essential part. My own reaction to this opening discussion was twofold. First, the authors examined very little from the historiography, text, or early interpretation of the Constitution in order to prove their point. They did emphasize the extent to which the Constitution was a reaction to the weak, unworkable government contemplated by the Articles of Confederation. Beyond that, their principal discussion concerns a collection of statements from James Madison, showing that Madison was not nearly as laissez faire about the role of government in the economy as some people have thought, most particularly George Will. There is no treatment of the Constitution's conferral of significant power to both Congress and the Executive branch, no mention of Chief Justice Marshall's influential jurisprudence that consolidated and strengthened federal power while subordinating the role of the states. Also absent is any treatment of the early national federal and state governments' very considerable public support for the development of infrastructure, with devices ranging from lottery financing to private monopoly grants. Nor do the authors consider the much more laissez faire reaction that took hold only in the 1820s with the rise of the Jacksonian movement. Their only reference to Jackson concerns his abolition of the National Bank, on which they blame a series of panics that stretched across the balance of the nineteenth century. They do briefly defend the Progressive Era, particularly its drive to expand both voter participation and government involvement in the economy.

My second reaction, however, is that Hacker and Pierson are precisely correct even though they did not document their historical conclusions particularly well. Indeed, one could go a step further: the extent to which some conservatives and libertarians have attempted to rewrite constitutional history in order to make antigovernment laissez faire a significant part of our constitutional past is nothing short of embarrassing. The original United States Constitution and contemporaneous state constitutions all contemplated governments that were heavily involved in economic development. Further, while the United States Constitution including the First Amendment very largely kept the national government out of the business of favoring or supporting particular religions, contemporaneous state constitutions showed no such reticence. For example, most of them insisted that only Christians could hold public office, and several extended that privilege only to Protestants.

Many also permitted individual states to use tax monies to support established churches.

Further, at no time in our constitutional history has the prevailing view of government at either the federal or the state level been predominantly libertarian. The period from Andrew Jackson to the Progressive Era witnessed a significant but only partially successful effort to push the government out of the economy. But the Jacksonian Era was characterized by even greater enthusiasm for public regulation of morals, including relatively victimless crimes such as Sabbath breaking or blasphemy – things that laissez faire constitutional law writers such as Thomas M. Cooley, John H. Dillon, and Christopher Tiedeman supported even as they decried state economic regulation.

So Hacker and Pierson are exactly right on the proposition suggested by their title: the War on Government today is based on a "collective amnesia" about American economic policy. Perhaps "willful ignorance" would be a better term. In any event, the evidence is sufficient to make clear that, notwithstanding its rhetoric, the war on government is in no sense a return to either constitutional or public policy originalism.

The bulk of Hacker's and Pierson's book is not concerned with the earlier history of economic policy, but rather with the various political maneuvers and interest group realignments that developed out of the "stagflation" crisis often attributed to President Jimmy Carter. The term refers to a combination of inflation and economic stagnation, or slow growth. Conservative contemporary critics quickly identified the culprit as an American policy developed after World War II of using active government management to maintain full employment. In retrospect, Hacker and Pierson note, stagflation seems much less mysterious than it appeared to be at the time. It was occasioned mainly by the 1973-1974 oil embargo during the Nixon years, simultaneously producing both slow growth and increasing costs. American policy up to that time had become far too dependent on foreign oil, which was essential to American production, and the embargo brought these vulnerabilities home. They might also have noted that although the word "stagflation" suggests a flatlining economy, in fact Reagan's rhetoric about achieving growth by getting the government off Americans' back was much more potent than the reality. Indeed, in retrospect growth during the years leading up to Reagan was not bad. The oil crisis took its toll, but mainly during the Nixon-Ford years. Measured by adjusted GDP per capita, growth during the twelve Reagan/Bush years was in fact quite mediocre, embarrassed by the eight high growth Kennedy/Johnson years which preceded it, handily bested by both Clinton administrations, and even bettered by the Carter administration whom Reagan Republicans denigrated. Differences in job creation performance are even more dramatic.

As economic performance numbers indicate, the collective American Amnesia to which Hacker and Pierson refer is forgetfulness about the fact that the United States has a mixed economy, and over the long run that combination of private markets and public oversight has served us very well. Rather than the invisible hand, they develop Charles Lindblom's metaphor of a hand in which markets are the fingers and government is the thumb. The fingers alone have dexterity but lack power. The thumb alone has power and can add stability, but it lacks the ability to grasp and lever. Working together, however, the thumbs and fingers are able to achieve far more than any part of the hand acting alone. At risk of being trite, the whole hand is very much more than a sum of its parts.

As Hacker and Pierson repeatedly emphasize, one characteristic of the revolt against government was a shift of resources away from production and toward finance. Accompanying this substantial growth in financial transactions was a steep decline in investment in infrastructure, basic research, and education. To be sure, investment in infrastructure has its share of rent seeking – for example, Alaskan Senator Ted Stevens' Bridge to Nowhere. But finance has more than its share as well, a phenomenon that they trace all the way back to railroad financier Jay Gould during the Gilded Age. As they put it, "Gould ignored the mechanics of rail and focused on the money." Indeed, the authors see the deregulation of finance, the slashing of the highest marginal tax rates, and the upward spiral of executive pay all as elements of serious problems: maldistribution of wealth, poorer economic performance, and slower economic growth. We devote too many resources to pushing money around and not enough to building things.

The rise of the Chicago School, particularly its macroeconomics, also plays a prominent part in this account. The Hacker and Pierson presentation is somewhat caricatured, however, presenting the School largely as a manifesto for smaller government and ignoring most of its significant contributions. The anecdotes are nevertheless interesting. For example, Hacker and Pierson tell a story about how the first ten editions of Paul Samuelson's best-selling undergraduate textbook*Economics* started out as Keynesian in its macro policy. Later editions gradually moved away from Keynes, however, as Samuelson aligned himself with more neoclassical Chicago School macroeconomics. The authors attribute this migration to harsh criticism from William F. Buckley, Jr., Milton Friedman, George H. Stigler and other unnamed Chicago School macroeconomists. This criticism seems overblown, for two reasons. First, Samuelson's (and later William Nordhaus')*Economics* was a basic introductory text, and basic texts are expected to follow the leading theory of the day. Samuelson's movement is equally well explained by the very considerable shift in macroeconomic theory reflected by the demise of traditional Keynesianism, the collapse of Bretton Woods monetary policy, and a little later the stagflation crisis. The new theory reintroduced neoclassical price theory into macro. Quite aside from negative reviews, a responsible author of an undergraduate text in Samuelson's position would have reflected the changes.

Second, on this particular issue a stronger case can be made that it was Keynes who was the historical outlier, with his broad rejection of self-clearing markets and full employment equilibrium, as well as his belief in temporary deficit spending in order to stimulate labor. It is worth remembering that the federal government never*intentionally* produced annualized deficit budgets prior to the Second New Deal. Keynesian theory certainly did not harken back to the Constitutional or Jacksonian periods. Through most of the classical period up to the Progressive Era, economists generally believed that most markets cleared at efficient levels of output. In fact, aside from a few extreme cases of natural monopoly, most of our theories of market failure were created during the period from 1890 to 1935, with the incorporation into microeconomic models of fixed costs and product differentiation. On this point, Keynes did little more than share a belief, together with the microeconomists of his generation (mainly Robinson and Chamberlin), that market failure was more common than had previously been appreciated.

Nevertheless, when it was published in 1936 the *General Theory* took economics and policy making by storm, caught Roosevelt's attention, and became a central symbol of the Second New Deal. Prior to that time and all the way back through the nineteenth century American monetary and employment policy *were* more classical or neoclassical. Indeed, prior to the New Deal management of employment was not a concern of federal policy at all, and the states did little more than attempt to regulate wages and working conditions.

As any good story, Hacker and Pierson's book has its share of villains. Most prominent are Charles and David Koch and the various foundations and centers that they have financed. All are dedicated to the promotion of libertarian policies, supportive of deregulation, and particularly hostile toward increased taxes. "Fewer groups have assembled more resources or amassed more power … and few have done more to shape the world we occupy today." They suggest that the Kochs might have been even more influential except for their insistence on excessive downstream control. For example, while other foundations typically funded academic and research projects without regard to ideology, the Koch Foundations was highly selective and often becoming involved in post-grant management. Their Club for Growth, ironically, has fueled policies that have actually retarded economic growth, although they did redistribute more wealth. Hacker and Pierson describe the Club for Growth's influence by giving an account of a Fox News Republican presidential debate in Iowa in 2011, in which all eight candidates stated that they would walk away from a deal that promised massive spending cuts if it also included even modest tax increases. I find it hard to believe that the Kochs have had as much influence on the Republican right as Hacker and Pierson suggest, but the facts are powerful.

Another villain that appears prominently is Ayn Rand, the Russian-born libertarian author of *The Fountainhead* and *Atlas Shrugged*. When she did most of her writing in the 1940s and 1950s she was regarded as something of a quack, but later she became a darling author of more libertarian republicans. One interesting episode concerns the Koch brothers' heavy involvement in the Cato Institute, including their role in selecting an Ayn Rand disciple as its head. Interestingly, Ayn Rand's own well documented preoccupation with the Soviet Union and the cold war was not what fueled post-Reagan anti-statism. To the contrary, Hacker and Pierson suggest that a bigger factor was the *end* of the cold war and the collapse of the Soviet Union. The resulting vacuum reduced the pressure on the United States to compete. Before that, the perceived Soviet threat induced a significant investment in infrastructure and R & D, including public funding for a national highway system, massive increases in education funding, dam construction including the Saint Lawrence Seaway, and the establishment of NASA and a national space program. The irony is that the current policies of the Republican right are significantly a result of lack of competition.

One group that is very largely absent from Hacker's and Pierson's account are Christian evangelicals, who have made up an important component of the Republican base since the Reagan years. In their picture, which seems fundamentally accurate, when the right gets around to talking about tax policy, privatization of the economy, or deregulation, Christian evangelicals are simply not at the table. As they conclude, "The tight alliance of conservative Christian voters and the GOP … has given the top a substantial base of middle-income voters who side with the party mostly for noneconomic reasons." Because of parallel Republican commitments to evangelical positions on abortion, gay marriage and similar issues the Party has had "greater freedom to head right on economic issues without worrying as much about the electoral support of their least-well-off backers." The irony, as Hacker and Pierson tell it, is that not only do evangelicals vote contrary to their own independent economic interest, but they also produce high turnouts, consistently greater than nearly all Democratic party groups. It's a twisted picture, of a group voting against most of their own economic interests, and at very high turnout levels, because they are aligned with the Republican right's other views.

My own belief is that this story is a little more complicated than Hacker and Pierson present it. The Party has not been able to field a true conservative or libertarian presidential candidate since the Goldwater debacle in 1964, although that may repeat in 2016. Reagan produced plenty of adorable rhetoric but his policies overall were quite moderate by comparison. The two Bushes came a little closer, but both McCain and Romney were at least closet moderates whose conservative credentials were often in doubt. In sum, the message is more mixed than the authors portray.

Hacker's and Pierson's larger point seems spot on, however. The brand of conservatism or libertarianism that has captured the Republican Party over the past three decades has not been a success, has been found out, has done serious damages to the Republican Party, and has very likely run its course, particularly given a younger generation that is less religious, more socially tolerant, and generally more to the left on economic issues. The move to the right has simply not lived up to expectations. Economically, it has significantly underperformed the more interventionist policies that preceded it. Its antigovernment rhetoric is both divisive and counterproductive for anyone who believes that economic growth can and must lift all boats. As they note in conclusion, over American history the "mixed economy remains a spectacular achievement" producing "unprecedented prosperity." Indeed, the antigovernment movement that has captured the Republican party today will likely be viewed as one of the greatest and most spectacular instances of special interest rent-seeking in history.

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