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President Ronald Reagan offers youthful budget director David Stockman some jelly beans during a budget meeting in the 1980s. (photo: Bettmann/Corbis)

Reagan Insider: 'GOP Destroyed US Economy'

By Paul B. Farrell, MarketWatch
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rsn editor's comment “ The 'insider' referred to in the title is the former economic wunderkind of Reaganomics - David Stockman. -- JPS/RSN ”

How: Gold. Tax cuts. Debts. Wars. Fat Cats. Class gap. No fiscal discipline.

"How my GOP destroyed the US economy." Yes, that is exactly what David Stockman, President Ronald Reagan's director of the Office of Management and Budget, wrote in a recent New York Times op-ed piece, "Four Deformations of the Apocalypse."

Get it? Not "destroying." The GOP has already "destroyed" the US economy, setting up an "American Apocalypse."

Yes, Stockman is equally damning of the Democrats' Keynesian policies. But what this indictment by a party insider - someone so close to the development of the Reaganomics ideology - says about America, helps all of us better understand how America's toxic partisan-

politics "holy war" is destroying not just the economy and capitalism, but the America dream. And unless this war stops soon, both parties will succeed in their collective death wish.

But why focus on Stockman's message? It's already lost in the 24/7 news cycle. Why? We need some introspection. Ask yourself: How did the great nation of America lose its moral compass and drift so far off course, to where our very survival is threatened?

We've arrived at a historic turning point as a nation that no longer needs outside enemies to destroy us, we are committing suicide. Democracy. Capitalism. The American dream. All dying. Why? Because of the economic decisions of the GOP the past 40 years, says this leading Reagan Republican.

Please listen with an open mind, no matter your party affiliation: This makes for a powerful history lesson, because it exposes how both parties are responsible for destroying the US economy. Listen closely:

Reagan Republican: The GOP Should File for Bankruptcy

Stockman rushes into the ring swinging like a boxer: "If there were such a thing as Chapter 11 for politicians, the Republican push to extend the unaffordable Bush tax cuts would amount to a bankruptcy filing. The nation's public debt ... will soon reach \$18 trillion." It screams "out for austerity and sacrifice." But instead, the GOP insists "that the nation's wealthiest taxpayers be spared even a three-percentage-point rate increase."

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No more. Today there's a "new catechism" that's "little more than money printing and deficit finance, vulgar Keynesianism robed in the ideological vestments of the prosperous classes" making a mockery of GOP ideals. Worse, it has resulted in "serial financial bubbles and Wall Street depredations that have crippled our economy." Yes, GOP ideals backfired, crippling our economy.

Stockman's indictment warns that the Republican party's "new policy doctrines have caused four great deformations of the national economy, and modern Republicans have turned a blind eye to each one:"

Stage 1. Nixon Irresponsible, Dumps Gold, US Starts Spending Binge

Richard Nixon's gold policies get Stockman's first assault, for defaulting "on American obligations under the 1944 Bretton Woods agreement to balance our accounts with the world." So for the past 40 years, America's been living "beyond our means as a nation" on "borrowed prosperity on an epic scale ... an outcome that Milton Friedman said could never happen when, in

1971, he persuaded President Nixon to unleash on the world paper dollars no longer redeemable in gold or other fixed monetary reserves."

Remember Friedman: "Just let the free market set currency exchange rates, he said, and trade deficits will self-correct." Friedman was wrong by trillions. And unfortunately "once relieved of the discipline of defending a fixed value for their currencies, politicians the world over were free to cheapen their money and disregard their neighbors."

And without discipline America was also encouraging "global monetary chaos as foreign central banks run their own printing presses at ever faster speeds to sop up the tidal wave of dollars coming from the Federal Reserve." Yes, the road to the coming apocalypse began with a Republican president listening to a misguided Nobel economist's advice.

Stage 2. Crushing Debts From Domestic Excesses, War Mongering

Stockman says "the second unhappy change in the American economy has been the extraordinary growth of our public debt. In 1970 it was just 40% of gross domestic product, or about \$425 billion. When it reaches \$18 trillion, it will be 40 times greater than in 1970." Who's to blame? Not big-spending Dems, says Stockman, but "from the Republican Party's embrace, about three decades ago, of the insidious doctrine that deficits don't matter if they result from tax cuts."

Back "in 1981, traditional Republicans supported tax cuts," but Stockman makes clear, they had to be "matched by spending cuts, to offset the way inflation was pushing many taxpayers into higher brackets and to spur investment. The Reagan administration's hastily prepared fiscal blueprint, however, was no match for the primordial forces - the welfare state and the warfare state - that drive the federal spending machine."

OK, stop a minute. As you absorb Stockman's indictment of how his Republican party has "destroyed the US economy," you're probably asking yourself why anyone should believe a traitor to the Reagan legacy. I believe party affiliation is irrelevant here. This is a crucial subject that must be explored because it further exposes a dangerous historical trend where politics is so partisan it's having huge negative consequences.

Yes, the GOP does have a welfare-warfare state: Stockman says "the neocons were pushing the military budget skyward. And the Republicans on Capitol Hill who were supposed to cut spending, exempted from the knife most of the domestic budget - entitlements, farm subsidies, education, water projects. But in the end it was a new cadre of ideological tax-cutters who killed the Republicans' fiscal religion."

When Fed chief Paul Volcker "crushed inflation" in the '80s we got a "solid economic rebound." But then "the new tax-cutters not only claimed victory for their supply-side strategy but hooked Republicans for good on the delusion that the economy will outgrow the deficit if plied with enough tax cuts." By 2009, they "reduced federal revenues to 15% of gross domestic product," lowest since the 1940s. Still today they're irrationally demanding an extension of those "unaffordable Bush tax cuts [that] would amount to a bankruptcy filing."

Recently Bush made matters far worse by "rarely vetoing a budget bill and engaging in two unfinanced foreign military adventures." Bush also gave in "on domestic spending cuts, signing into law \$420 billion in nondefense appropriations, a 65% percent gain from the \$260 billion he had inherited eight years earlier. Republicans thus joined the Democrats in a shameless embrace of a free-lunch fiscal policy." Takes two to tango.

Stage 3. Wall Street's Deadly 'Vast, Unproductive Expansion'

Stockman continues pounding away: "The third ominous change in the American economy has been the vast, unproductive expansion of our financial sector." He warns that "Republicans have been oblivious to the grave danger of flooding financial markets with freely printed money and, at the same time, removing traditional restrictions on leverage and speculation." Wrong, not oblivious. Self-interested Republican loyalists like Paulson, Bernanke and Geithner knew exactly what they were doing.

They wanted the economy, markets and the government to be under the absolute control of Wall Street's too-greedy-to-fail banks. They conned Congress and the Fed into bailing out an estimated \$23.7 trillion debt. Worse, they have since destroyed meaningful financial reforms. So Wall Street is now back to business as usual blowing another bigger bubble/bust cycle that will culminate in the coming "American Apocalypse."

Stockman refers to Wall Street's surviving banks as "wards of the state." Wrong, the opposite is true. Wall Street now controls Washington, and its "unproductive" trading is "extracting billions from the economy with a lot of pointless speculation in stocks, bonds, commodities and derivatives." Wall Street banks like Goldman were virtually bankrupt, would have never survived without government-guaranteed deposits and "virtually free money from the Fed's discount window to cover their bad bets."

Stage 4. New American Revolution: Class-Warfare Coming Soon

Finally, thanks to Republican policies that let us "live beyond our means for decades by borrowing heavily from abroad, we have steadily sent jobs and production offshore," while at home "high-value jobs in goods production ... trade, transportation, information technology and the professions shrunk by 12% to 68 million from 77 million."

As the apocalypse draws near, Stockman sees a class-rebellion, a new revolution, a war against greed and the wealthy. Soon. The trigger will be the growing gap between economic classes: No wonder "that during the last bubble (from 2002 to 2006) the top 1% of Americans - paid mainly from the Wall Street casino - received two-thirds of the gain in national income, while the bottom 90% - mainly dependent on Main Street's shrinking economy - got only 12%. This growing wealth gap is not the market's fault. It's the decaying fruit of bad economic policy."

Get it? The decaying fruit of the GOP's bad economic policies is destroying our economy.

Warning: This Black Swan Won't Be Pretty, Will Shock, Soon

His bottom line: "The day of national reckoning has arrived. We will not have a conventional business recovery now, but rather a long hangover of debt liquidation and downsizing ... it's a pity that the modern Republican party offers the American people an irrelevant platform of recycled Keynesianism when the old approach - balanced budgets, sound money and financial discipline - is needed more than ever."

Wrong: There are far bigger things to "pity."

First, that most Americans, 300 million, are helpless, will do nothing, sit in the bleachers passively watching this deadly partisan game like it's just another TV reality show.

Second, that, unfortunately, politicians are so deep-in-the-pockets of the Wall Street conspiracy that controls Washington they are helpless and blind.

And third, there's a depressing sense that Stockman will be dismissed as a traitor, his message lost in the 24/7 news cycle ... until the final apocalyptic event, an unpredictable black swan triggers another, bigger global meltdown, followed by a long Great Depression II and a historic class war.

So be prepared, it will hit soon, when you least expect.
