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## Crisis inspires rethinking of 'Reaganomics'

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Big government is staging a comeback.

When Ronald Reagan entered the White House in 1981, he famously declared, "Government is not the solution to our problem; government is the problem." Since then, conservative small-government ideas built on a foundation of deregulation and low taxes have dominated the debate over what role Washington should play in the economy.

Now the tide is turning, political experts on the right and left say. A combination of circumstances, including the resurgence of the Democratic Party and fallout from the worst financial crisis since the Great Depression, is giving impetus to wholesale expansion of government economic intervention.

"We've gone through a period of three decades when the default assumptions were conservative assumptions," said William Galston, a senior fellow at the Brookings Institution in Washington, D.C., and a policy adviser in the Clinton administration. "That framework has probably been torpedoed by events."

If Barack Obama is elected president and Democrats strengthen their grip on Congress, the period could be transformative. Democrats would enact a series of programs that they believe would boost economic growth and improve middle-class living standards.

But even if Republican presidential candidate John McCain were to win, a far-reaching expansion of government's regulatory authority would be likely. The nation's brush with financial collapse has changed the game. Despite McCain's small-government preferences, he now vows "much stricter oversight" of the financial system.

Rep. Barney Frank, the Massachusetts Democrat who chairs the House Financial Services Committee, argues that the nation is entering a period of resurgent government activism that will resemble Franklin Roosevelt's New Deal of the 1930s.

"This is the end of the era of extreme laissez-faire, of 'Don't tax it, don't regulate it,'" Frank said in an interview. "That has now been totally evaporated."

Conservatives acknowledge they have lost the initiative. But they see the current period as a

temporary detour in a nation where free-market capitalism remains the ruling principle.

### **'Pendulum swings'**

"The pendulum swings between big-government liberalism and small-government conservatism," said Dick Armey, former Republican leader in the House of Representatives. "We're going through one of those periods now. Democrats are feeling their oats. But the pendulum will swing back in our direction profoundly."

Democrats have already made public an important part of their agenda. Last week, House Democrats proposed a new economic stimulus package that would include money for highways and other public works, added unemployment benefits and help for struggling states.

If Democrats enhance their congressional majorities, in the longer term there will be "an explicit effort to try to approach the inequality issue," Frank said. "We'll look at income distribution, sensible regulation, trade treaties."

Obama's economic plan contemplates a range of new government initiatives, including a broad expansion of health insurance coverage, tens of billions of dollars for investment in alternative energy, and increased spending on education and infrastructure.

Even before the financial crisis hit, the idea that government should keep taxes low and get out of the way of business was under assault. Critics argued that three decades of conservative economic policies had fostered inequality and eroded living standards for working and middle-class families. Democrats pushing for programs such as universal health care were poised for big gains in this year's elections.

At the same time, the Bush administration and congressional Republicans gave their party's economic stewardship a bad name, conservatives acknowledge. Government got much larger. While taxes were cut, spending rose rapidly throughout the Bush years. Military spending, anti-terrorism, a Medicare drug benefit and pet congressional projects sucked in hundreds of billions of dollars.

Then the housing market collapsed, generating loan losses that overwhelmed the financial system. That calamity - and the need to devote more than a trillion dollars of taxpayer money to deal with it - discredited the notion that markets can take care of themselves. Finally came the astonishing spectacle of a conservative Republican administration purchasing ownership stakes in the nation's leading banks.

"We nationalized financial institutions and banks by executive fiat," said David Kotok, chief investment officer of the New Jersey money management firm Cumberland Advisors. "Once this begins to occur, this trend has only one direction to go. The free-market-capitalism economy is

history."

Liberals say the emergency is fostering a political climate friendly to big government.

"It creates an opportunity," said Matthew Yglesias of the Center for American Progress. "The current crisis makes it more likely that (Democrats) will be able to enact an expansive agenda."

Still, some question whether the stars are so perfectly aligned. They ask whether the need for emergency measures to stabilize the financial system translates into a groundswell for big government.

For one thing, the public is deeply suspicious of Washington. A recent CBS/New York Times poll showed that more than 80 percent of those surveyed didn't believe government could be trusted to do what's right. And a Pew Research poll released last week found no significant gain in support for government regulation of business.

"We're at a real low point in the public's view of government effectiveness," said Michael Dimock, Pew's associate director of research.

Others maintain that the Reagan era created a lasting base of support for the notion that government shouldn't try to manage the economy.

"There's a general understanding all over the world that markets are the basis of prosperity," said David Boaz, executive vice president of the libertarian Cato Institute. "What's taking place now is a move to the left within that."

Then there's the question of how hard Democrats will push their activist philosophy, particularly in a period when the budget deficit is at record levels and resources are scarce. The answer hinges greatly on the enigmatic figure of Barack Obama, who variously displays leftist and centrist sides.

### **Fdr or clinton?**

"We will find out if he is a new Franklin Roosevelt or a new Bill Clinton," Boaz said.

Roosevelt of course presided over the greatest expansion of government economic power in U.S. history. Clinton adapted to conservative dominance by declaring in 1996 that the era of big government was over.

The view that Obama, if elected, would preside over an era of reform comparable to the New Deal is rooted in the idea that the financial crisis comes at the culmination of a long period of stagnation for wage earners.

"During the Roosevelt era, money was spent building our middle-class society, unemployment

insurance, Social Security, the GI Bill," said Norton Garfinkle, author of "The American Dream vs. The Gospel of Wealth."

"Then Reagan came along and went to the pre-1930s Republican point of view of trickle-down economics. The data show that didn't work. We are now at a turning point. Obama is coming back to the fundamental principles of the Roosevelt revolution."

At the same time though, Obama has promised to reduce the budget deficit and not to increase the overall size of government. And the tax reductions he espouses would keep a low ceiling on government revenue.

"Obama is self-consciously and explicitly moderate in what he proposes," said Stanford University economic historian Gavin Wright. "I wouldn't call his program a new New Deal. But I would say that Obama is trying to re-create the notion that the great majority of Americans can aspire to the trappings of a middle-class lifestyle. It's going to be Clintonomics without the shenanigans."

Of course, a new president will come to office in the midst of dire economic circumstances. That could force either candidate to rewrite his playbook and take more dramatic action.

If Obama is president with large Democratic majorities in Congress, "the new unified government will be on probation," the Brookings Institution's Galston said. "It will be essential for government to display effectiveness, implementing positive changes in the lives of average families."

There's another possible outcome. "I would bet that the Democrats will overreach, creating a real chance for a Republican revival in 2010," Boaz said.

That's what Arney, the former Republican House leader, expects:

"My advice to Barney Frank is to make hay while the sun shines. Because, for the next couple of years, you guys are going to run amok and scare the devil out of the American people."

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