THE TRIUMP OF POLITICS----40 YEARS LATER

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Ronald Reagan ran for president in both the 1976 primaries and the 1980 general election as a firm advocate of balanced Federal budgets. During the latter campaign he promised black ink by 1984, and then presented a detailed plan within 25 days of his inauguration to make good on this promise.

At the time, the Federal debt was $930 billion and it had taken 39 president and the first 192 years of the Republic to get there. As it turned out, however, that history was but a fiscally sober prelude.

During the policy confusion of the Reagan years this fiscal rectitude vanished entirely, metastasizing ultimately into what is now Trump-O-Nomics. The latter, of course, is a flaming repudiation of the GOP's old-time religion of balanced budgets, sound money and small government.

Trump-O-nomics is also, as we will see, the bastard progeny of the 1980s. The outcome from that disastrous pivot and transformation has been the very worst imaginable: That is, the Federal budget has become a Fiscal Doomsday Machine racing on auto-pilot toward

inexorable disaster, while the process of fiscal governance in Washington has been broken beyond repair.

As evidence, we remind that the public debt at less than $1 trillion and 30% of GDP as of January 1981 had reached---

$3.5 trillion by the end of 1988.

$5.5 trillion by the turn of the century.

$20 trillion by the time the Donald stumbled into the White House the first time.

$28 trillion by the time he left grudgingly in 2021.

$38 trillion after the UniParty's pandemic spending orgy.

And, now, after what we have called the MOABB (mother of all budget busters) or the so-called Big Beautiful Bill that Trump signed into law with much fanfare in July, the public debt is on an inexorable path to the staggering sum of $185 trillion by mid-century---if we ever gets there, which is not possible under any known form of financial arithmetic.

In other words, the grand American experiment in liberty and democratic self-government is likely to shatter in a financial disaster so cataclysmic as to make the demise of the Roman Empire appear to be a close call. And yet and yet: There is utterly no political capacity in America to even lightly tap the brakes on a budgetary

doomsday machine that is unalterably heading for the brink, as we are reminded by the GOP capitulation on the shutdown once again this week.

Still, it needs to be recalled that it wasn't always thus. Outside of WWII and the severe global depression of the 1930s, American democracy actually had a pretty decent fiscal track record. For instance, during the 65 years from 1866 through 1930 Washington racked up 48 budget surpluses. And that was surely nothing to sneeze at in the annals of fiscal history among modern democracies.

In fact, prior to the 1913 creation of a central bank with a printing press capable of monetizing the public debt, America's fiscal record was nothing short of remarkable by present day standards.

The civil war, of course, had occasioned a hemorrhage of blood and public borrowing, too. By 1866 the public debt totaled nearly $3.0 billion, which represented 44% of estimated GDP.

Yet after decades of budget surpluses during the second half of the 19th century---along with no income tax, no Welfare State and no peacetime military that amounted to anything much---the public debt had been reduced to just $1.2 billion by 1914.

Accordingly, 60% of the Civil War Debt had been paid off. That was truly an amazing feat by any historical standard.

Moreover, what was left amounted to a virtual pittance in the scheme of things: It was only 3.1% of the nation's $39 billion GDP at the time and represented a mere $12 per capita. And, no, we did not omit any zeroes!

To be sure, there has been a lot of inflation since 1914, but the comparison is still worth its context-providing insights. Today's dollar is worth just 3.1% of its 1914 value---so the 1914 public debt amounted to $36 billion in 2025 dollars of purchasing power. On an apples-to-apples constant dollar basis, that's $365 per capita of public debt back then versus $113,000 per capita today.

Stated differently, in constant dollars the public debt has soared from $36 billion with a "B" in 1914 to $38 trillion with a "T" today. In real terms per capita, it's up by **310X!**

Moreover, 1914 wasn't actually the end of the good old days, fiscally. After the eruption of big deficits during the New Deal, which caused the debt to reach 38% of GDP by 1938 and then to soar to 120% of GDP during WWII, the old time religion had one last hurrah.

President Eisenhower led the way with a 35% cut in real defense spending, three budget surpluses and a politically wise fiscal strategy. The *Eisenhower Curve*, in fact, was the very inverse of the *Laffer Curve*: It required doing the hard part first---cutting spending----in order to earn the right to reduce taxes for the people later.

Owing to steady economic growth during the 25 years after WWII, and also due to relative fiscal prudence by even the Democrat administrations up through Jimmy Carter's time, there was minimal Federal borrowing between 1946 and 1980. Accordingly, the public debt ratio marched back down hill to even below the New Deal ratio, plunging from the **120%** wartime peak to just **31%** of GDP by 1980.

But that date is surely the pivot point of America's fiscal history. Thereafter, an entirely new regime unfolded under which the nation's historic fiscal prudence was thrown to the winds with a mighty dollop of help from the so-called conservative Republican party.

During 1981, in fact, the debt ratio started climbing and has never looked back: It now stands above the WWII peak and under current policy including the MOABB will reach a cataclysmic **168%** of GDP by 2054.

Indeed, the graph below is all you really need to know about the past and future course of America's fiscal history. There was absolutely no objective economic or geo-political crisis behind the dramatic and fatal U-turn in the public debt burden after 1980. It was a consequence of ideological error and the deep and seemingly permanent political malfunction it engendered.

So perforce we turn to amplification of four crucial developments during the Reagan years which account for the abrupt U-turn on the nation's fiscal path depicted in the graph above.

These factors not only explain the U-turn but also remain firmly in place still today. This means there is no avoiding the end game of an economy-killing $185 trillion public debt by mid-century or before---unless there is a massive reversal of UniParty fiscal policy.

These history-bending developments during the Reagan era can be summarized as follows:

- First, came the takeover of Washington by a bipartisan neocon coalition that has spent massively and needlessly on a bloated Warfare State and Empire abroad.
- Today's $1.0 trillion defense budget is more than double in real terms the $475 billion (2025 $) that the great general, Dwight Eisenhower, thought was more than adequate in 1960 to deter

the Soviet Empire at its peak of industrial and military vigor. Yet no comparable threat remotely exists anywhere in the world today.

- Second in line was the GOP's stinging defeat on Social Security reform in May 1981. This led to the so-called conservative party going AWOL on its appointed role as nemesis of the Welfare State.
- Accordingly, other than a one-time 90-day delay of the Social Security COLA in 1983 as part of the Greenspan Commission's trust fund rescue package there has been no material change in the $3.0 trillion per year cost of the core Social Security/Medicare entitlements---which political cop-out the Trumpified GOP has now formulated into party dogma.
- The third factor in the fatal fiscal U-turn has been the embrace by mainstream GOP politicians of the doctrine that tax cuts are a magic economic elixir that can generate so much "growth" as to cause chronic deficits to fade away in a tsunami of rising revenues. But that has always been a pipe-dream because at today's Federal tax level it takes $6 of economic growth to break-even on every dollar of income taxes cut.
- The fourth and perhaps most important factor has been the takeover of the nation's central bank by Alan Greenspan and his heir and assigns, who installed Keynesian monetary central planning at the Fed.
- The consequent wholesale monetization of the public debt via massive expansion of the Fed's balance sheet---from $250 billion when Greenspan took over to a recent peak of $9

trillion--- further euthanized the nation’s elected politicians with respect to the folly of chronic Federal deficits.

- The fact is, the historic barrier against excessive deficit finance has always been sharply rising interest rates, which generated immediate negative feedback from adversely impacted businesses and homeowners back home. Consequently, the Fed's systematic repression and falsification of interest rates after 1987, in effect, removed the one powerful political check that had kept US fiscal policy on the straight and narrow.

Before elaborating further on these drivers of post-1980 fiscal history, however, it first needs to be clarified that the aura of great economic success and prosperity during the Reagan era is largely a myth.

More than anything else it reflects favorable cyclical timing that transpired during the 1981-1988 years of the Gipper's term; and also the related decisive defeat over the 1970's double digit inflation that was engineered by Paul Volcker at the Fed.

His reward for the most successful stint at the head of the nation's central bank since 1913, which saw inflation fall from **14%** in early 1980 to just **1.2%** by the first quarter of 1987, was to be fired by the GOP pols in the White House at the end of his term several months later. In his stead, of course, came the once and former gold bug,

Alan Greenspan, and that changed the course of history in a way that was not good at all, as we amplify below.

We think debunking the record is important because there is a casual presumption among today's GOP politicians that the 1980s were a period of extraordinary economic performance---so therefore the Reagan policies couldn't have led to anything negative or untoward.

In fact, the Reagan policies established the mold---a copiously funded Warfare State, an ever-expanding Welfare States and consistently low taxes relative to GDP. Accordingly, we have basically been on an auto-pilot trip to fiscal disaster ever since.

The truth, however, is that aside from Volcker's inflation victory the Reagan years did not in any manner break-out of the macroeconomic performance path that had been extant since the end of the Korean War.

Contrary to GOP oratory, compound annual growth rates for the real economy, real median household income and total private sector hours worked during the eight Reagan years get no cigar whatsoever. In fact, relative to their performance metrics from 1949 to 1980 under the policies of Eisenhower, Kennedy-Johnson, Nixon, Ford

and Carter, respectively, the Reagan era outcomes were actually worse.

Thus, economic growth---as measured by real final sales of domestic product---at **3.4%** per annum during the Reagan years was 10% below the 1949-1980 average of **3.8%.**

Likewise, real median family income growth of **1.1%** per annum was 50% slower during the Reagan years than the **2.2%** per annum average during the prior three decades,

Similarly, the **0.7%** per year growth of total labor hours worked was 70% lower than the **2.3%** rate during prior 40 years.

In short, there was nothing extraordinary about the impact of Reagan policies during the 1980s---even as the legacy of the four policy errors has cast a dark shadow over the nation's fiscal future as we amplify below.

Real Final Sales of Domestic Product (2017 $)

1949: $1,050 billion.

1980:$3,000 billion.

1988: $4,200 billion.

CAGR 1949 to 1980: 3.8%.

CAGR 1980 to 1988: 3.4%

Real Median Household Income (2023$)

1949:$25,000.

1980: $55,000.

1988: $60,000.

CAGR 1949-1980:2.2%.

1980-1988: 1.1%.

Index Of Aggregate Hours Of Private Employees (2002 =100)

1949:40.0.

1980: 80.0.

1988: 85.0.

CAGR 1949-1980: 2.3%.

CAGR 1980-1988: 0.7%

At the end of the day, therefore, nothing good happened during the 1980s that mitigates the wrong-headed fiscal path that emerged by the end of that decade, and which has only worsened in the decades since.

Moreover and contrary to perennial GOP rhetoric, this dramatic pivot was not due to the long arm of pre-1980 policy errors reaching back to FDR, LBJ or even Jimmy Carter. Nor was it attributable to any of the Dem administrations---Clinton, Obama and Biden---that came thereafter.

On the contrary, the U-turn followed like night after day from the proposition postulated by the opponents of Reaganomics during the 1980 campaign---George Bush in the primaries and independent John Anderson and incumbent Jimmy Carter in the general election: To wit---

.....*you can't cut taxes, increase defense and balance the budget---all at the same time*.

To be sure, they math of the Reaganomics equation is easy enough to specify on paper. Indeed, a dictator could formulate and accomplish it any day of the week and twice on Sundays. But as we are supposedly now learning, there are "No Kings" in America.

So, the implicit modifier in the critics' equation was that you couldn't accomplish this fiscal feat in the give and take of America's constitutionally prescribed process of democratic governance.

In fact, this is the reason we resuscitate our long-ago (1986) memoir/polemic, which was titled *"The Triumph of Politics"*. The gravamen of its 411 pages amounted to chapter and verse proof from the nitty gritty legislative and bureaucratic battles of President Reagan's tenure in the White House that the core predicate of Reaganomics was unachievable as a practical matter of fiscal governance.

In a word, what the Reagan era actually proved was not that "deficits don't matter", as Dick Cheney later so fatuously claimed, but that economy, society and constitution-wrecking deficits are the inherent outcome of the GOP's post-1981 fiscal synthesis.

That is, a platform that embraced the Welfare State, the Warfare State and rock-bottom taxes, too.

We use the term "post-1981" intentionally because the original Reagan fiscal plan as presented to a joint session of Congress in February 1981**, did embody the correct math** for reconciling sweeping supply-side tax cuts, big defense increases and a balanced budget by 1984.

But among other ambitious assumptions the original Reagan fiscal math included a "magic asterisk". It represented an additional annual savings of **$44 billion** per year, which was to come on top of the **$64 billion** of domestic reforms and cuts that were laid out in detail in the February plan.

Despite what has become Washington-propagated urban legend, there was no hidden trickery in the magic asterisk. The Reagan plan stated in plain sight that the $64 billion per year of itemized cuts, which were already shaking the rafters in political Washington, would presently be increased by nearly **+70%** via a second round of budget cuts and savings "to be identified" later.

For want of doubt, moreover, it needs to be recognized that the initial $64 billion of itemized cuts itself embodied some pretty heavy-duty political lifting. That savings figure alone was equal to **2.1%** of GDP, which would be about **$600 billion** per year at today $30 trillion GDP scale.

Likewise, the magic asterisk of additional savings implied cuts equal to another **1.5%** of GDP or $400 billion more per year at today's economic scale.

That is to say, yes, even back then you could cut taxes, increase defense and still get a balanced budget by 1984. But, alas, only if you reduced baseline Federal spending by what would amount to **$1 trillion per year** in terms of today's political calculus!

Even then, the equivalent $400 billion per year magic asterisk was not a number yanked out of thin air. The proof for that, in fact, was famously detailed in the contemporaneous notes of my off-the-record conversations with *Washington Post* editor Bill Greider during the winter and spring of 1981.

These became the basis for a bombshell expose called *"The Education of David Stockman"* published in the *Atlantic Monthly* in November 1981. And the later plainly showed that the second installment of cuts pursuant to the magic asterisk would take dead aim at the Welfare State and the Warfare State.

That is, after the initial cuts in means-tested entitlements like food stamps and Medicaid and discretionary social programs and domestic pork barrels, the next target was reform of the big entitlements, especially Social Security and Medicare. And that was to be coupled with a hoped for pruning of the initial bloated five-year defense plan that had been hurriedly approved within 10 days of the inauguration, as we amplify below.

Alas, neither of these magic asterisk savings initiatives ever happened, and in their quick demise in the halls of Congress and in the swamp of defense bureaucracies and defense contractors which suffuse the nation's capital lies much of the explanation for the U-turn in the nation's fiscal condition after 1981.

In fact, by May of 1981 the Welfare State had decisively crushed the Reagan Social Security reform plan, meaning that not a material dime of Welfare State savings have been obtained in the 44 year since.

Likewise, by September 1981 the Warfare State---embodied in the military/industrial/congressional/neocon/defense think tank complex---had locked in a massive long-term defense spending top line. It was so ample and profligate that it literally snatched fiscal defeat from the jaws of victory represented by the end of the Cold War in 1991.

The Warfare State, of course, had left nothing to chance when the hawkish Ronald Reagan came to town in January 1981. Indeed, hardly ten days into the Reagan presidency, it was all over except the shouting in the form of a $1.46 trillion five-year top line spending level for defense that left even the military contractors tickled pink.

And for want of doubt, that figure translates into upwards of **$3.7 trillion** in 2025 dollars of purchasing power.

As we explained at embarrassing length in the original *Triumph of Politics*, the massive Reagan defense build-up had sprung into life by virtue of what amounted to a hand calculator error. Mine!

As it happened, this was not as frivolous as it may sound today. We had needed in the first week of the Reagan Administration a placeholder of five top line DOD spending numbers for the promised Reagan defense build-up for each of the five years through FY 1986. The detailed content of the military manpower, hardware and air, land and sea fighting capabilities that it would fund was to be filled in later.

In turn, this placeholder expedient had been necessary so we could develop an overall budget proving that the Reaganomics equation worked, adding up to the aforementioned balanced budget by 1984.

And, also, so that the new administration could hit the ground running by February 14th, which was the only prayer for overcoming the great corrupt political Swamp ensconced inside the Washington beltway.

Still, when it came to the Warfare State, this approach was ass backwards. In the great scheme of things, the military services and

defense agencies should have borne the heavy burden of justifying their budgets via a brick-by-brick build-up of each weapons system, force structure and mission capability from the bottom up--- along with a cost-benefit assessment of each element.

But the opposite actually happened. This huge top line was so capacious that it enabled the Warfare State to literally buy permanent control of America's national security policy by the sheer political firepower of the military-industrial-contractor-think tank-NGO complex, which fed upon the leavenings that spilled out of the Pentagon in every direction.

The aforementioned hand-calculator error had occurred at a three-person meeting with DOD Secretary Cap Weinberger and his deputy on January 31st. The Reagan campaign had promised **5%** per year real growth in defense spending in order to highlight the national security "weakness" of the Carter Administration, which had been dramatically exposed by the fiasco of the hostage rescue mission in Iran ("Desert One").

But as the countdown of days in captivity had reached a crescendo before the release of the American captives on inauguration day, the nascent Reagan defense department had already been staffed at the highest levels by a cadre of hawks and neocons. And by the end of January 1981 the latter were beating the tom toms for much higher annual defense real growth rates of **8-9%** per year.

As it happened, Weinberger readily agreed to a split-the-difference compromise at **7%** topline growth without any discussion at all in terms of the defense capabilities it would buy. Yet we foolishly considered it a win--- after a quick HP 12C calculation boosting the campaign plan's 5% growth to 7% didn't appear to show insurmountable damage to the overall fiscal equation.

This compromise level was then duly transmitted by the Pentagon to the White House and quickly embraced by President Reagan literally before the ink was dry.

Yet the five numbers on the Pentagon work sheet is where the rubber met the road, and not in a good way. The Reagan campaign's **5%** real growth rate assumption had been put into an overall budget plan by a committee of campaign advisors led by then private economist Alan Greenspan.

This became known as the "Chicago Plan" after the campaign speech where Reagan had announced it, and it had started with Jimmy Carter's purportedly deficient defense budget of $142 billion for 1980. The campaign then projected defense spending at 5% per annum growth from that starting point--- plus Greenspan's guesstimate as to the inflation rate for each year.

As it happened, however, events had long overtaken Carter's $142 billion budget for FY 1980 by the time of our meeting at the Pentagon. In response to the Iranian hostage crisis, the Carter Administration had added a supplemental that took DOD's budget to about $185 billion.

Thereafter, the incoming Reagan team had added a further "get well" supplemental that raised the revised Carter figure for FY 1982 to fully **$222 billion**. And it was from that lofty level that Weinberger's DOD computers ground-out a five-year top line embodying 7% real growth, which rose from $222 billion in FY 1982 to a staggering $368 billion by FY 1986.

The sum of the five years amounted to the aforementioned $1.46 trillion five-year plan, but the passage of time and the massive interim inflation means that this figure hardly does justice to what transpired. Therefore, we have translated into 2024 dollars both the Chicago statement's 5% growth budget starting in 1980 and the Weinberger 7% topline starting in 2022.

Needless to say, the date where you start and the rate by which you do the compounding, do make a difference!

In fact, in today's dollars the five-year difference between the two plans was **+$1.32 trillion**, and that tells you everything you need to

know. The Weinberger top line literally buried the fiscal equation of Reaganomics in perpetual and massive red ink.

Chicago Plan Versus Weinberger 7% Growth In FY 2024 Dollars:

FY 1982: $447 billion vs. $608 billion.

FY 1983: $449 billion vs. $673 billion.

FY 1984: $476 billion vs.$735 billion.

FY 1985: $494 billion vs. $807 billion.

FY 1986: $518 billion vs. $891 billion.

Five Year Total: $2.394 trillion vs. $3.714 trillion.

5-Year Difference: +$1.323 trillion.

Needless to say, the Weinberger topline has cast a baleful shadow on the fiscal future up until this very day.

On the one hand, the defense budget growth curve at the time was so steep that it literally suffocated any remaining impulse among the GOP's Congressional rank and file to stick with the $64 billion of 1981 domestic cuts, to say nothing of the $44 billion magic asterisk reforms of the giant entitlements.

That is to say, the nearly impossible Reagan fiscal equation was essentially decapitated by the perception of the GOP rank and file that their hard-won and politically painful domestic spending cuts were not going to balance the budget at all--- but were just being transferred to the DOD.

Even more importantly, the Weinberger top line should have been completely abandoned when the Soviet Union disappeared into the dustbin of history in 1991. At that juncture, the defense budget which had grown to upwards of $1 trillion in 2025 dollars could have been easily cut to $500 billion.

Nevertheless, the Reagan levels survived mainly intact through the 1990s because most of the original $3.7 trillion for FY 1982 to FY 1986 had **not** been spent as advertised on countering the alleged Soviet nuclear first strike threat. The latter had always been a bogus neocon claim.

Instead, the overwhelming share of the massive topline was allocated to conventional tanks, ships, planes, missiles, sea and airlift and battlefield command and control electronics---- capabilities that were ideally suited for wars of intervention and invasion in the middle east and north Africa.

The result was a gratuitous post-Soviet revival of the American Empire and the Forever Wars that broke America's fiscal equation wide open---even as these capacities for global empire were utterly unnecessary for America's Homeland security.

After all, the Forever Wars and interventions that flowed from the Reagan era Warfare State were built upon the false foundation of NATO and the underlying theory of collective security and entangling alliances. Yet the list of misguided interventions went on and on.

Thus, the first Gulf War actually amounted to a spat between Saddam Hussein and the Emir of Kuwait over directional drilling in the Rumaila oilfield that straddled their border. But so frickin' what!

This intervention had no benefit whatsoever to the homeland security of America---even if did provide occasion for a CNN reality TV show about tank battles in the desert.

The same can be said of the shock and awe campaign a decade later that finally suspended Saddam from the end of a rope---only to open Iraq to anti-American chaos led by the dominant vengeance-seeking Shiite population. Ditto for Libya, Syria, Somalia, Afghanistan, Yemen, Lebanon---all victims of Washington conducted or supplied military assaults that had absolutely nothing to do with the military defense of the North American continent.

Yet all of these foolish military interventions were possible---without legislative fuss and muss about what would have been massive defense spending increases---because the conventional war-making capacity was already there. It had been bought and paid for by the errant Reagan defense build-up of the 1980s.

In fact, the case for a true America First policy---that is, returning to the pre-1948 status quo ante and a proper Fortress America military posture---has powerfully strengthened during the last three decades, even as the Reagan-enabled Warfare State has sucked America's fiscal capacity dry.

The fact is, in the world of 2025 the only theoretical military threat to America's homeland security is the possibility of nuclear attack or blackmail in the form of a First Strike capacity so overwhelming, lethal and effective that an adversary could simply call out checkmate and demand Washington's surrender.

Fortunately, there is no nation on earth that has anything close to the Nuclear First Strike force that would be needed to totally overwhelm America's triad nuclear deterrent and thereby avoid a retaliatory annihilation of its own country and people if it attempted to strike first.

After all, the US has 3,700 active nuclear warheads, of which about 1,800 are operational at any point in time. In turn, these are spread under the seven seas, in hardened silos and among a fleet of 66 strategic bombers---all beyond the detection or reach of any other nuclear power.

For instance, the Ohio class nuclear submarines each have 20 missile tubes, with each missile carrying an average of four-to-five warheads. That's 90 independently targetable warheads per boat. At any given time 12 of the 14 Ohio class nuclear subs are actively deployed, and spread around the oceans of the planet within a firing range of 4,000 miles.

So at the point of attack that's 1,080 deep-sea nuclear warheads cruising along the ocean bottoms that would need to be identified, located and neutralized before any would be nuclear attacker or blackmailer even gets started. Even Russia's vaunted hypersonic missiles couldn't find and take out by surprise the US sea-based deterrent.

Needless to say, there is no way that America's nuclear deterrent can be neutralized by a blackmailer. And that gets us to the heart of the case for drastically downsizing America's defense budget to a level that essentially reverses the great build-up of the $1 trillion per year Warfare State during the 1980s.

To wit, according to the most recent CBO estimates the nuclear triad will cost only about $75 billion per year to maintain over the next decade, including allowances for periodic weapons upgrades.

So the core component of America's military security requires only 7% of today's massive military budget. Moreover, the sea-based ballistic missile force is estimated to cost just $188 billion over the entire next decade or only 1.9% of the $10 trillion CBO defense baseline for that period.

So after setting aside $75 billion per year for the strategic nuclear triad, how much of the remaining $900 billion+ DOD budget would needed? That is, in a post-NATO world shorn of America's entangling alliances, foreign bases and foolish overseas commitments---such as the utter folly of decreeing which Chinese political faction is permitted to rule Taiwan or how the borders of Ukraine created by the writ of Lenin and Stalin should be portioned among the warring factions domiciled there.

The answer is a conventional defense of Fortress America would cost $400 billion, at best. The other half trillion all goes to the operation of the Empire.

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As to the Welfare State, the Reagan Social Security reform plan largely designed by your speaker during April and early May of 1981, and was based on the crucial principle of "de-welfarizing" Social Security.

This was to be achieved by systematically eliminating "unearned" or non-actuarial benefits that had been grafted on to the system during the decades after its 1935 enactment when payroll tax revenues were accumulating in full force, even as the rolls of newly entitled retired workers built up slowly.

In effect, Congress had blown the system's initial reserves by grafting on to actuarial-based benefits such extras as early retirement at age 62, unearned spousal and child benefits, fulsome disability benefits at any age and, most importantly, massive unearned benefits accruing to each and every covered worker by virtue of the cataclysmic Nixon-era mistake of 1972.

The latter had indexed worker earnings records for both inflation and also real gains generated by productivity increases. This was known "wage-indexing", and it meant that the earnings record of a worker from 1941 who was retiring in 1981, for instance, would be inflated not by just the CPI alone. But it would also be inflated for all real wage gains above the CPI that had occurred during the entire intervening 40 years.

Needless to say, the payroll taxes collected in 1941 had been spent long-ago under the pay-as-you go Ponzi that is Social Security, and most certainly the payroll taxes collected back then had not reflected the next 40 years of productivity-based real wage gains which had subsequently materialized in the US economy.

So, thanks to Nixon's determination to win a landslide re-election by signing a hugely flawed Social Security bill in October 1972, which gave current retirees a 20% increase to offset inflation and hundreds of millions of future retiree's wage-indexed benefit entitlements that were not remotely earned or fiscally sustainable, the system was heading for inexorable collapse.

To at least forthrightly address the fatal wage-indexing error, the Reagan plan proposed a subtle way to degrade the damage over time, which was called "freezing the bend points". Without getting into the weeds of Social Security jargon, this meant that an increasing share of a worker's falsely indexed (e.g. inflated) earnings would fall into the 15% replacement bracket rather than the initial 90% and 32% tiers, respectively, which are applicable to average monthly earnings (AME) at lower wage amounts.

Likewise, there was then and remains today no way to curtail the Social Security system at the heart of the Welfare State without trimming early retirement benefits to 62-year-old workers, as the

Reagan Plan did by raising the penalty from 20% to 45%, as well as a plethora of other unearned goodies such as student benefits.

Of course, all of these Reagan Plan measures were prospective only---so not a single one of the then 36 million OASDI beneficiaries would have been affected.

But that made no never mind to the Republican Senate. Said they: Not only must you grandfather all existing beneficiaries, but you also must give at least 10-20 years advance notice of any benefit changes to all future beneficiaries.

Yet with that demarche, within four weeks of its arrival on Capitol Hill the Reagan Social Security reform plan was deader-than-a-door nail--- as attested to by a resolution denouncing the plan in the Republican Senate, which passed by a 96-0 vote.

The rest is history because no politician is going to walk the plank for a budget savings that will arise two decades down the road, even as the political wrath of those impacted will manifest itself in the here and now of the next election.

Accordingly, during the entirety of the Reagan years the one-time 90-day delay of the COLA and some minor tinkering with Medicare was all she wrote in terms of curtailing the Welfare State.

The combined savings amounted to barely $20 billion or just 0.4% of GDP by 1986, which, in turn, was barely *one-fourth* of the magic asterisk target of about 1.5% of GDP

Accordingly, no de-welfarization of Social Security or Medicare occurred during the Reagan years or thereafter---even though an honest rendering of the fiscal equation of Reaganomics crucially depended upon it.

Instead, the combination of demographics and the built-in cornucopia of unearned benefits meant there was no slowing of the inexorable growth of the Welfare State. Even during the eight Reagan years, the constant dollar (2024 $) cost of Medicare and Social Security rose by nearly 50%---- from **$490 billion to $727 billion** by 1988.

Thereafter, of course, it was off to the races because never again were any structural changes in the Social Security and Medicare entitlements even seriously attempted. It has just been a case of fiscal automatic pilot.

Accordingly, the constant dollar cost of these twin pillars of the Welfare State has risen by **5X**---from just under **$500 billion** in 1980 to nearly **$2.5 trillion** in 2024, causing their claim on GDP to nearly double to **8.7%.**

Needless to say, the record also shows that it does not matter whether the GOP is in power in Washington or not. The core of the Welfare State has grown at the same **4-5% real rate** under both Republican and Democrat administrations since the Reagan era.

Of course, the current $2.5 trillion annual outlay is only a warm-up for what lies ahead. Before mid-century there will be 100 million Social Security/Medicare beneficiaries.

All will be drawing ever heavier extractions from rising average real benefits levels due to wage-indexing; from soaring Medicare expense owing to the third-party payor-dominated medical care delivery system which is wildly and inherently inflationary; and from a remaining plethora of retirement and disability entitlements which are thoroughly welfarized.

Consequently, the share of GDP will reach upwards of 13% in the decades ahead.

Outlays For the Twin Pillars of The Welfare State, 1980 to 2024

FY	SS Outlays	Med Outlays	Combined Outlays	GDP Deflator	Combined % GDP	Constant $ Combined (FY 2024 $)
1980	118	36	154	31.4	5.4	490
1988	219	100	319	43.9	6.1	727
1992	288	140	428	52.6	6.5	814
2000	409	254	663	62.2	6.5	1,066
2008	617	468	1,085	76.5	7.4	1,418
2016	916	595	1,511	82.9	8.1	1,822
2020	1,095	777	1,872	85.3	8.9	2,196
2024	1,461	1,030	2,491	100.0	8.7	2,491

Finally, it goes without saying that GOP tax policy during the 1980s and through the OBBBA of June 2025 has been utterly out of sync with the party's fulsome support for the Welfare State, the Warfare State and activist Federal government whenever it was politically convenient.

For instance, Republicans have been Big Spenders when it came to subsidizing farmers, the energy industry, disaster victims, Big Tech, bailing out the banks, Wall Street and the auto companies and

passing out trillions of free stuff during the unnecessary pandemic Lockdowns, among others.

As a result, the GOP's low tax policy generated a federal tax take of barely **17% of GDP** during most of the last several decades---even as spending often exceeded **23% of GDP.**

Moreover, the actual route to the current unrealistically low Federal tax take since 1981 has been politically destructive in the extreme.

To wit, the GOP pols have *combined low marginal rates from the supply side gospel with huge pro-family tax relief in the form of a high standard deduction and generous child tax credits.* So doing, they basically took the broad middle and upper-middle class out of the business of paying for government and therefore of feeling the pain of financing its endless spend-a-thons.

For instance, after OBBBA a two-earner household with two children under 18 years using the standard deduction and bringing home wage and salary income equal to the median household income of about $85,000 would pay just **$1,440 in income taxes**.

That's because this household would have **$52,800** of taxable income after the standard deduction of $32,200 and would owe 10% on the first $24,800 of taxable income and a 12% marginal rate on

the balance, thereby generating an income tax liability of **$5,840 or just under 7% of gross income.**

But the latter would then be reduced by $4,400 owing to two child credits of $2,200 each. This means that the median household's net Federal income tax payment would amount to just **$1,440**. That is, Uncle Sam's income tax extraction of just **1.7%** from an $85,000 income in 2026 would be roughly equivalent to a weekend at Disney World!

Even when you add in the 7.65% employee share of payroll taxes, the Federal total tax burden would still be in *single digits*.

Thus, for the year just ended (FY 2025) total Federal spending was a cool $7.0 trillion and amounted to **23.3%** of GDP. But among the 154 million income tax filers in the most recent year, fully 31% or 48 million owed zero Federal income taxes and another 12 million paid less than $1,000.

In all, fully **122 million households or 80% pay a less than 10%** of their gross income in Federal income and payroll taxes. And this is possible, of course, only because 25% or more of Federal spending is being habitually borrowed from future generations and 65% of Federal income taxes are paid by the top 7% of households.

In short, GOP tax policy amounts to the Big Lie. It is telling households at the dead center of the income distribution that they can have a **23.3% of GDP government for a 9.3% of income tax charge.** Stated differently, they'll be getting Big Government on the Potomac on sale at **60% off**.

Summary Of Federal Tax Burden At 1.0X Median Income or $85,000 Per Annum

Gross wage & salary income: $85,000.

Taxable Income after $32,200 standard deduction: $52,800.

10% liability on first $24,8oo of taxable income: $2,480

12% marginal rate on the $28,000 balance of taxable income: $3,360.

Total income tax liability: $5,840

Average tax rate on gross income: 6.9%.

Child tax credits: ($4,400).

Net income tax payment: $1,440.

Net payment as % of gross income: 1.7%.

Payroll tax at 7.65%: $6,503.

Total Federal Taxes paid: $7,943.

Total taxes as % of gross income: 9.3%.

Finally, even the 6% of GDP fiscal gap is now destined to widen owing to soaring net interest expense. Thus, during the last 33 years interest expense averaged only **2.0%** of GDP.

No more, however. Owing to the debt and the fact that the Fed is now out of the debt monetization business owing to the 40-year high inflation it ignited, net interest expense will escalate to **4%** of GDP by 2034 and to **5%** by 2054. And that's if you believe CBO's Rosy Scenario, which assumes that interest rates will barely exceed its projected inflation.

We will take the overs. Net interest rate will be soaring sooner and reach far higher levels than CBO assumes, meaning that total Federal spending will be hard-pressed to remain under **25-26% of GDP.**

Accordingly, the fiscal pathway ahead embodies deficits of 7-10% of GDP as far as the eye can see.

And yet absolutely nothing will be done by Washington owing to----

- the UniParty's commitment to Empire and the $1.0 trillion Warfare State.
- Democrat demagoguery on Social Security and Medicare coupled with the Trumpified GOP's cop-out on the Welfare State.

- and the GOP’s delusion that low tax rates pay for themselves and that America can therefore have Big Government on the cheap.

So, yes, there is still an even bigger fiscal calamity baked into the cake. That's the verdict 40 years later.