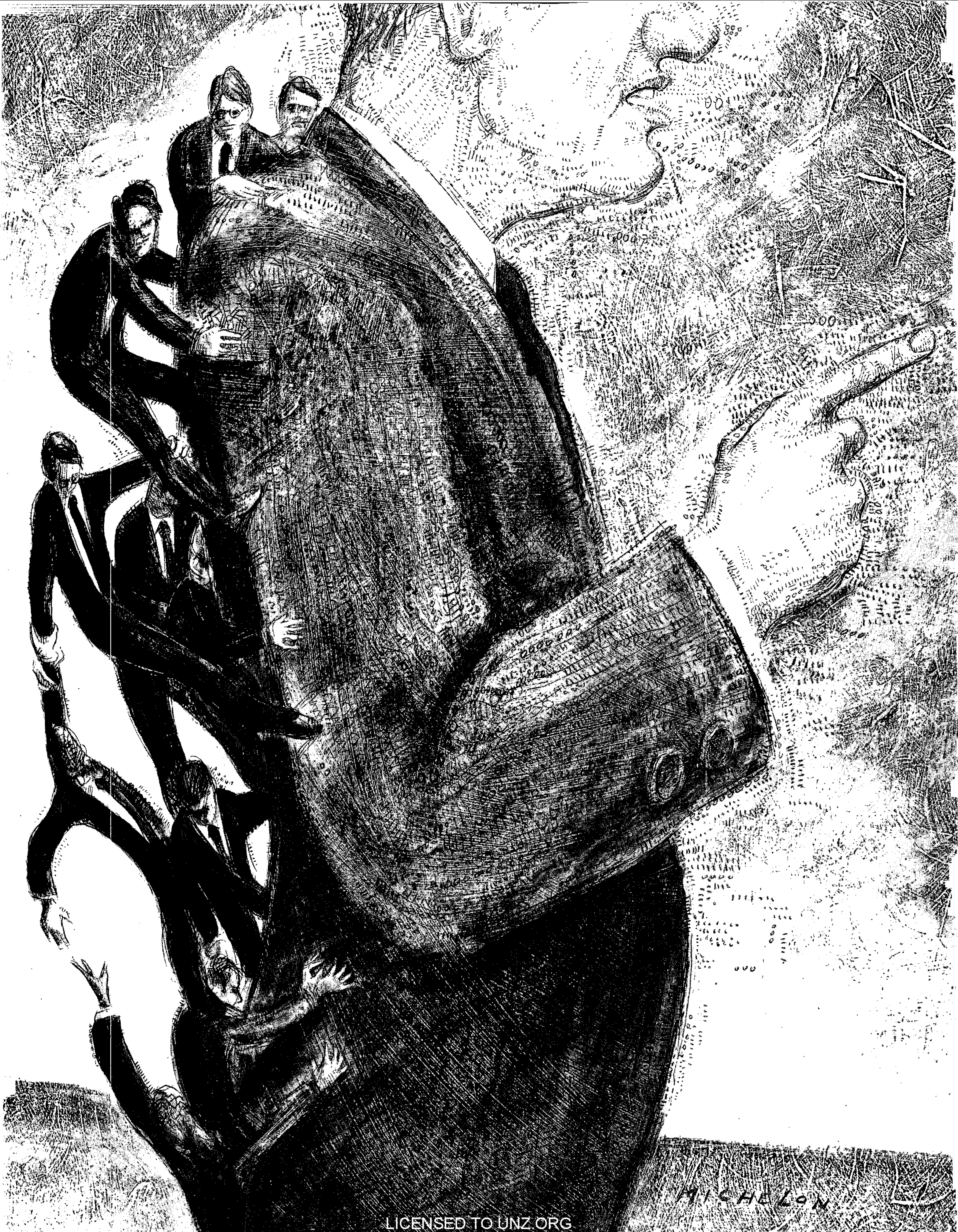

MICHELON

PACKAGE DEAL

BY JOHN HOOD

YOU'LL GET MORE THAN JUST HILLARY IF YOU VOTE FOR BILL.

"If you vote for him, you get me," Hillary Clinton says of her husband. Actually, you get an even bigger package deal. A vote for president is really a vote for a policy-making team, though on Election Day most voters recognize only the quarterback. Later on, we get to meet the players receiving the ball and blocking for the runners. In 1960, Americans in effect voted for Robert McNamara, Sargent Shriver, and Bill Moyers. In 1976, we put Bert Lance, Charles Shultze, and Jody Powell in office. In 1980, we picked Ed Meese, Michael Deaver, and Jim Baker. In 1988, we voted for, well, Jim Baker again.

Now Bill Clinton wants to call the plays. His opponents and the press have focused some attention on his supposedly moderate playbook of policy prescriptions—most recently, his economic plan *Putting People First.* But it's the makeup of his team, more than his own stump speeches and white papers, that signals his true intentions.

In marked contrast to Jimmy Carter, Clinton will not bring a legion of second stringers from his home state to make federal policy. Clinton's networks among Democratic policy nerds are strong and varied, as are his ties to the Democratic establishment in statehouses and city halls across the country. Bill and Hillary Clinton have "the world's largest mental Rolodex," Clinton adviser Mickey Kantor says.

Indeed, at no time since 1960 have the "best and brightest" of the Democratic intelligentsia had such a good chance to get federal jobs. Like John F. Kennedy, Clinton considers himself an intellectual. He's comfortable with professors and think tank presidents. For all his posturing as an outsider, Clinton finds some of his strongest support among Washington insiders and Ivy League professors. They held their breath during the early presidential primaries, when Clinton was trying to live down the other aspects of his lifelong Kennedy imitation. Now, with the Democratic nomination in the bag, they've moved one step closer to real power.

Like the young, ambitious experts who filled the ranks of the Kennedy administration in 1961, Clinton's advisers and fellow travelers can't wait to demonstrate their acumen and superior wisdom. They've chafed under 12 years of governance by Republican presidents they considered hopelessly befuddled and an inept Democratic Congress they viewed with suspicion and scorn—just as their predecessors did during the eight years of the Eisenhower presidency that preceded Kennedy.

Clinton also has, as Kennedy did, many friends and allies in the press corps. *Time* Editor at Large Strobe Talbott, a friend of Clinton's since they attended Oxford together, has defended him vociferously. *New York Times* columnist and former Carter official Leslie Gelb wrote a book with Clinton's foreign-policy adviser in 1985 and touts Clinton's views today. Other neoliberals, such as Joe Klein of *Newsweek*, and paleoliberals, such as columnist Bob Kuttner, were early swooners at the Clinton altar. If the Arkansas governor wins, look for the "revolving door" between press and politics to spin quite a bit.

One innovation in Washington policy making since the Kennedy days is the all-purpose, politically connected think tank, an institution developed to near perfection by Reaganite conservatives. In reaction, Democratic policy experts and Carter administration refugees have created think tanks of their own: the Progressive Policy Institute, the Economic Policy Institute, and Citizens for Tax Justice, all of which

MARC MICHELON

would play key domestic-policy roles in a Clinton presidency.

As an organization, PPI would be the most influential by far. It was created in 1989 by the Democratic Leadership Council, of which Clinton was then chairman, and has served as the idea factory for the party's "moderate" wing ever since. Its president, Will Marshall, is a close Clinton aide. Vice President Robert Shapiro, formerly economic-policy director for the Dukakis-Bentsen campaign, and senior fellow David Osborne, author of the much-discussed book *Reinventing Government*, are also frequent advisers to the Clinton campaign. Many of Clinton's slogans and proposals are cribbed from Progressive Policy Institute publications.

A self-styled "postliberal" organization, PPI is dedicated to the proposition that government can work but needs to work more efficiently. PPI champions an "entrepreneurial" vision of both the public and private sector, emphasizing incentives and economic growth while adhering to a liberal regulatory agenda. It supports income redistribution but emphasizes the middle class rather than the poor. Clinton's rhetoric of "responsibility" and talk of workfare and public-service jobs tied to college loans derives from PPI.

The Clinton campaign also draws from union-backed EPI, a more traditionally liberal organization that has bashed deregulation, blamed state and local budget problems on low taxes, and defended strident unionism on economic grounds. Clinton often uses data from EPI studies on labor markets and education to back up his positions.

Robert Reich, an old friend who advises Clinton on economic and trade matters, helped found the Economic Policy Institute. But Reich, who advocates "positive economic nationalism," is as much a representative of Harvard, where he teaches political economy at the Kennedy School of Government, as he is of the institute.

David Wilhelm, former executive director of Citizens for Tax Justice, works full-time for the Clinton campaign as campaign manager (a less exalted position than the title implies). Because Citizens for Tax Justice exists to advocate a more-progressive tax system, it lacks the broad policy base and academic credibility of PPI and EPI.

From the ranks of business, Clinton advisers include college friends Ira Magaziner, a Rhode Island consultant and prominent supporter of industrial policy; Roger Altman, an investment banker and former Carter Treasury official, who has criticized the Democratic party for not emphasizing economic growth and productivity; and Robert Rubin, co-chairman of Goldman, Sachs and Co., who helped Clinton draft *Putting People First* and is particularly interested in improving the nation's infrastructure.

TAKEN AS A WHOLE, BILL CLINTON'S TRADE-POLICY PROPOSALS ARE THINLY VEILED EFFORTS TO PANDER TO CRUDE RESENTMENT OF FOREIGNERS AND OF MULTINATIONAL CORPORATIONS.

From his PPI advisers, notably Shapiro, Clinton gets a traditional Democratic platform with a middle-class twist: soaking the rich in the name of "tax fairness" to the middle class. In a 1991 paper, "Bearing Fair Burdens: A Progressive Tax Agenda for Equity and Growth," Shapiro proposed raising the income-tax rate on households making more than $150,000 in taxable income while reducing slightly the rates on middle-class taxpayers. Clinton's economic manifesto proposes exactly that—hiking the top income-tax rate to 36 percent and giving middle-class families a choice of either a small rate reduction or a tax credit for each dependent child.

Tax fairness is, however, all in the eye of the beholder. Liberals argue that during the 1980s the share of income wealthy Americans paid to the feds in income tax fell. Conservatives answer that the share of the total tax bill shouldered by the wealthy increased. Both are sort of right, but to Shapiro the disagreement is not relevant.

"I don't think that either of those measures capture the issue of fairness," he says. "Fairness is an impression or a sensibility. It's not a technical issue." Shapiro blames much of the fairness problem on the increased burden that Social Security payroll taxes have placed on low- and middle-income workers but says that changing these taxes is not politically feasible. Instead, he would shift income-tax brackets.

Shapiro concedes that supply-siders were right about one thing: Low tax rates achieved by broadening the tax base are better for the economy than higher, targeted ones. His proposals, says his PPI paper, "recognize that the economic decisions arrived at through markets usually produce better economic results than those made by politicians and policymakers." He notes that his higher top rate would still be substantially less than the 50-percent rate supply-siders first achieved and praised in 1981 as a path-breaking reform.

That's true, but a bit defensive. If extremely punitive taxes on rich people punish the economy with distortions and lowered productivity, moderately punitive taxes on the rich will also punish the economy, only not so much. In other words, reducing the top rate from 70 percent to 50 percent in 1981 was worth cheering about. Raising the rate now is not.

In the 1980 campaign, Republicans chanted "marginal tax rates" like a mantra. This time around, Clinton's team puts their trust in their own magic word: *investment.*

Clinton's plan, writes former Carter Treasury official Altman in *The Wall Street Journal*, "defines investment the right way: activities that raise the national stock of human, technological and physical capital. For Gov. Clinton, the three priorities are to upgrade the education and skills of our work force; to raise the investment and R&D share of gross domestic product; and to restore a globally competitive, national infrastructure."

The investment emphasis neatly meshes with Shapiro's other major project that became a Clinton plank: reorganizing the budget. Payments to old people, such as Social Security and Medicare, and insurance obligations, such as the S&L cleanup, would be considered "past" obligations, largely off limits to budget cutting or trust-fund raids. Cuts would occur in "present" programs, such as spending for defense, criminal justice, and welfare. A Clinton administration would spend more on "investments" in the "future"—education, training, infrastructure, children's programs, etc. This sounds like a reasonable way to organize the budget, but in practice it's merely a device to make pet programs into "investments"—and thus inviolate.

In fact, Clinton's proposed budget includes only a few fainthearted attempts to cut spending, mainly by better management. Like the Bush and Reagan administrations, Clinton's economic advisers expect to grow their way out of the problem thanks to, you guessed it, investment. "Logic and evidence suggest a major growth dividend from Clinton's investment strategy," writes Altman in his column defending Clinton's economic program.

Beyond the financial finagling, however, is a coherent if fallacious economic strategy developed by Harvard's Reich, who has known Clinton since they both attended Oxford in the late 1960s. In *The Work of Nations: Preparing Ourselves for 21st Century Capitalism*, Reich argues that in an era of international competition, "human capital" is the most important factor in national success, at least among developed countries. It is just too easy nowadays to move money and plants; only people are relatively immobile.

"All that is left of the American economy is a collection of people and their collective will—and collective wallets—to make themselves more productive," he said in a recent interview. "Government's role is to ensure that people's skills and insights are as developed as possible." Hence, investment.

To that end, the centerpiece of Bill Clinton's economic program is a $50-billion increase in federal "investment" in education and infrastructure. Of that amount, Clinton would devote $20 billion to a "Rebuild America Fund" that would pay for highway and high-speed rail construction, information and environmental technology, and a host of other government infrastructure projects. The remainder would represent new federal spending on all levels of education—from Head Start to continuing education. Another Clinton proposal is a kind of "pay or play" law mandating that U.S. employers either provide training programs to their workers or pay a tax to the federal government to fund federal training programs.

Reich and other Clinton economic advisers defend this massive increase in federal spending on the grounds that America's "investment budget" is shrinking. They tend to express every fiscal fact as a share of gross national product. Reich contends that infrastructure spending dropped from 1.14 percent of GNP in 1980 to 0.75 percent in 1990, that education spending dropped from 0.51 percent of GNP to 0.37 percent, and that nondefense research and development spending dropped from 0.42 percent to 0.31 percent. The list goes on.

Here is where the Clinton team's explanation for both our budget and economic problems starts to unravel. Expressing spending categories as shares of GNP is sometimes appropriate, but it's a roundabout way of measuring governmental effort. It also obscures the actual record. Spending on all these areas went up in real dollars per capita in the 1980s, during a period in which the economy—measured by GNP—grew by leaps and bounds (from a recession-trough year of 1980 to a recession-brink year of 1990).

Federal outlays for nondefense capital investment increased by 50 percent in real dollars during the 1980s. Federal grants for infrastructure to states and localities went down slightly, but state governments more than made up for that with their own huge spending increases. Billions of tax dollars went into rat holes such as mass transit, needlessly ornate waste-treatment facilities, rural development projects, and other ideas that sound nifty in campaign position papers.

Education is another area where Reich's analysis clashes dramatically with reality. He complains that the federal share of total school spending decreased during the 1980s; but his source is an EPI study that ranked the United States low relative to other countries in the share of GNP devoted to K-12 education. Again, the actual numbers paint a different picture. Total spending per pupil on American primary and secondary education increased by about a third during the 1980s. The United

States spends more actual dollars per student on schools than virtually every country on earth, certainly more than the Asian countries whose pupils perform so much better than ours on achievement tests. And preschool programs, regarded as a silver bullet for educational and economic problems by Reich and so many others, are themselves rather costly and rarely live up to their advance billing. (See "Children's Crusade," June.)

For all their pretension of being "centrists" or "neoliberals," Reich and other Clinton advisers ignore the crucial issue of government productivity. Despite Clinton's "reinventing government" rhetoric, borrowed from PPI scholar Osborne, his economic program implicitly assumes a direct relationship between dollars spent and services rendered. "George Bush says we have more will than wallet, but that's obviously untrue," Reich says.

But the real problem with government efforts to upgrade infrastructure has been cost, not lack of funding. "We have the capacity tomorrow to vastly increase the number of roads, bridges, and other infrastructure if we want to—just repeal the Davis-Bacon Act," says Stephen Moore, director of fiscal-policy studies for the Cato Institute. Davis-Bacon quires contractors on federal projects to pay union wages. That adds about 30 percent to the cost of those federal projects, Moore says. Minority set-aside and quota laws add another 10 percent to the cost, while "Buy American" provisions add 5 percent more. Privatization, which Reich thinks has already gone too far, offers further cost-reduction possibilities—and money for private investment in new construction.

Similarly, America's already huge investment in education could better be spent by providing the money directly to parents to fund competing schools, especially private schools, which provide better education at lower cost than public schools. But Clinton strenuously opposes such a system and enjoys the strong backing of the National Education Association, the main barrier to productivity gains of all sorts in American education. A real reformer would first figure out how best to spend the vast sums we already "invest," rather than simply shelling out more. Reich isn't one, and neither is Clinton.

What's more, the investment-infatuated Clinton campaign shows little understanding of how real investment works. In the private sector, the rule isn't, "Invest in any and every project. The more investment the better." Rather, any business that wants to stay in business scrutinizes investment opportunities, comparing alternative payoffs—and deciding whether it's better to reinvest profits or to pay them out to owners to invest elsewhere. In the public sector, a real investment strategy would consider just that alternative: letting the taxpayers decide how they would like to spend their money.

THE INVESTMENT-INFATUATED CLINTON CAMPAIGN SHOWS LITTLE UNDERSTANDING OF HOW REAL INVESTMENT WORKS. IN THE PRIVATE SECTOR, THE RULE ISN'T, "INVEST IN ANY AND EVERY PROJECT."

Reich at least recognizes what actions could help the economy—improving education—and what actions, such as protectionism, could hurt it. In *The Work of Nations* he contrasts his vision of "positive economic nationalism" with traditional "zero-sum nationalism."

In his program, he writes, "the overarching goal is to enhance global welfare rather than to advance one nation's well-being by reducing another's. There is not a fixed amount of world profit to be divided or a limited market to be shared. It is not 'their' corporations against 'ours' in a fight for dominance of world commerce....Thus positive economic nationalism would eschew trade barriers against the products of any work force as well as obstacles to the movement of money and ideas across borders. Even were such obstacles enforceable, they would only serve to reduce the capacity of each nation's work force to enjoy the fruits of investment made in them, and in others." Reich's famous chapter "Who Is Us" suggests that "we" are American workers and that foreign investment benefits "us."

The Clinton program, however, takes exactly the opposite approach. In *Putting People First*, Clinton indulges his trade-hawk advisers with attacks on American investment overseas and foreign investment here. He would repeal an existing tax deferral for income received and reinvested overseas by foreign subsidiaries of U.S. companies. He would also increase taxes on foreign firms who invest in American plants and facilities. These measures are supposed to prevent American firms from exporting jobs and foreign firms from avoiding taxation. Other proposals, such as ending a tax deduction for and tightening rules on "special interest lobbying," are pure blather.

Taken as a whole, Clinton's trade-policy proposals are thinly veiled efforts to pander to crude resentment of foreigners and of multinational corporations. "The increased taxation [Clinton] proposes would deprive us of foreign capital and result in less growth in productivity and real wages," writes economist Paul Craig Roberts in *The Wall Street Journal.*

The primary source of this zero-sum nationalism appears to be Ira Magaziner, a consultant who seems to identify more with corporate clients than, like Reich, with American workers. Magaziner favors an energetic U.S. industrial policy to subsidize or even create companies to compete with foreign firms. In his book *The Silent War,* he correctly dings executives at large American corporations for complacency and provides numerous case studies of the successes and failures of companies around the world who seek foreign markets. Rather than support corporate takeovers to rid companies of less-than-stellar managers, however, he wants the federal government to play an active role in devising business strategies.

But you'd never know by reading Magaziner that our overall competitiveness is improving, that U.S. export businesses are booming, that American manufacturing productivity is higher than that of most competitor nations, and that entrepreneurs at small American firms have been meeting the global trade challenge for a decade. Given these facts, Magaziner's call for "American companies to get the kind of help from the U.S. government that virtually every other nation gives its business" takes on a new and ominous meaning.

Other signs of danger to free trade in a potential Clinton administration include Clinton's plan to set up an Economic Security Council in the White House, which would operate in a similar manner to the current National Security Council. Clinton's ESC—made up of Cabinet secretaries, economists, and other advisers—would monitor trade patterns and advise the president on ways to improve competitiveness (read: protect domestic firms). And while Clinton claims to support the North American Free Trade Agreement with Mexico, he has called on Mexico to dramatically increase wages, workplace regulation, and environmental standards and he has given tentative support to Rep. Dick Gephardt's plan to tie new tariffs to the pact.

Furthermore, Derek Shearer, a Clinton adviser and public-policy professor at Occidental College, has told *The Washington Post* that Clinton would formulate a "Japan policy" to deal with what Shearer called the "special case of the Japanese." He added, "We also have to look seriously at the question: How important is it to the United States to preserve a viable auto industry?"

Coming from Magaziner, that would be a call for protectionism. Coming from Shearer, formerly the theoretician behind Tom Hayden's Campaign for Economic Democracy, it could suggest direct government equity investment, socialism with a probusiness face. After all, this self-styled economic democrat once wrote, "Socialism has a bad name in America, and no amount of wishful thinking on the part of the left is going to change that in our lifetimes....The words Economic Democracy are an adequate and effective replacement."

A domestic team that includes socialist wannabes, moderate technocrats, corporatist consultants, worker advocates, and the hovering presence of various special-interest groups (notably labor unions and environmentalists) is unlikely to stick to the same playbook. Coach Clinton, however, is better suited than most to keep the team together.

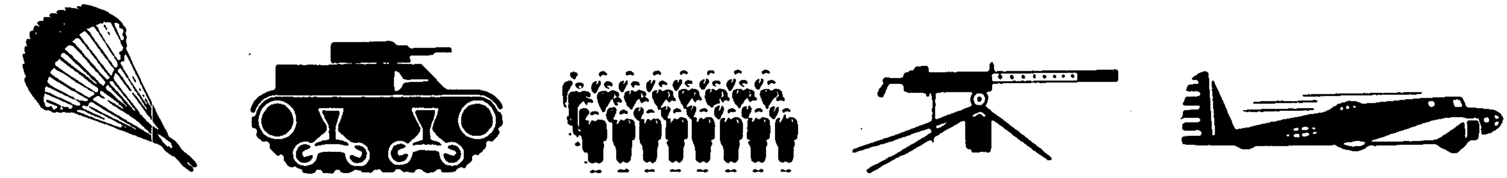
Most Southern governors, including Clinton, are "weak"—a reference not to their character but to their constitutional status. In the South, legislatures dominate and the key to gubernatorial success is conciliation (something markedly absent from Jimmy Carter's single term as Georgia's chief executive). Clinton, who has served 12 years as Arkansas's governor, is the ultimate schmoozer and conciliator. Rather than choose sides, he attempts to head off or finesse disagreements.

Clinton's powers of persuasion have already helped his campaign muddle through passionate disputes about campaign tactics. In May, four Clinton staffers threatened to resign after a poll to be conducted by Stan Greenberg was nixed by Susan Thomases, a Washington consultant and friend of Hillary's. The poll was only the symbol of a campaign rift. Greenberg's camp favored a campaign focus on wooing middle-class, suburban voters back to the Democrats while Thomases's camp favored a major play for the party's left-wing base. Clinton avoided resignations all around by taking some ideas from each side. That's the sort of something-for-everyone compromising we can expect in a Clinton administration.

Unfortunately, the only set of ideas to counterbalance Clinton's scary industrial-policy fixation involve "tax fairness" (hike tax rates), "investment" (hike spending), and "budget reform" (hike the deficit). When we examine the writings and musings of Shapiro, Reich, Magaziner, Shearer, Altman, and other Clinton advisers, the dimensions and principles of Clintonomics become clear: The 1980s tax cuts and deregulation efforts were a failure. Education, training, and infrastructure spending was cut during the decade and must be drastically increased now. Better-trained employees of subsidized, protected foreign firms are outproducing American workers. Business managers are too incompetent to make strategic choices and must be guided by the federal government.

To invert candidate Ronald Reagan's famous maxim, the best way to sum up these ideas seems to be: "The federal government is too small and it taxes too little." That's some guiding principle for Bill Clinton, postliberal "moderate Democrat," to embrace.

Contributing Editor John Hood is editor of Carolina Journal *and a columnist for* Spectator *magazine in Raleigh.*



ARMS WI

WHAT TO BUY AND WHY

FLEXIBLE DEFENSE

By James S. Robbins

The United States' strategic goals during the Cold War were reactive; the containment of communism was the primary goal. But the retreat of communism allows the United States to pursue more-active goals, reflected in three basic strategic priorities:

1) Maintaining stability by making aggressive war difficult for states to pursue profitably;

2) Preserving the freedom of commerce through open sea lanes, open skies, and open borders where possible; and

3) Preserving and extending liberal democracy and opposing the extension of political repression.

An underlying assumption of these goals is that liberal states, of varying complexions, are generally peaceful and don't pursue aggressive military policies. The people of such states recognize that commerce, not coercion, is a preferable method of intercourse. Were the international system composed only of liberal states, armed conflict wouldn't be a significant issue. However, not all states are liberal democracies, and most don't share classical-liberal assumptions, values, or principles. It is the illiberal states which pose future threats to the United States and to the free world and which must be deterred or fought and, in time liberalized.

The United States should not intervene militarily in all conflicts. Nor should it rule out intervention in any conflict. Rather, we should judge intervention by U.S. interests. If American interests are threatened directly, through a possible armed attack on the American homeland, threat to citizens or property abroad, or similar circumstances, intervention (proportional to the threat) is mandatory. If the threat is indirect, the United States may (not must) intervene if:

1) U.S. action will promote the cause of freedom; and

2) U.S. action is militarily and politically feasible.

The feasibility test is an important check. For example, the United States won't invade China to impose democracy primarily because it has no chance of succeeding. On the other hand, the United States shouldn't intervene in a country even when militarily feasible with the intention of overthrowing its government simply because it is an illiberal state. While such action may be militarily feasible, in most cases it would not meet with international approval. Furthermore, there is more to democratization than simply overthrowing a dictatorship, and rash action by the United States could do more harm than good in the long run. The United States isn't committed to freeing every oppressed people, certainly not unilaterally.

The United States is now the world's dominant military power. This isn't because American force levels have increased; in fact, they have decreased since 1989. But the collapse of the Soviet Union has shifted the correlation of forces toward the United States. Because of this, the United States can reduce the size of its military establishment while still maintaining its dominant position.

Disarmament is only practical to a point. The Soviet Union is no longer a threat, but other dangers are emerging, such as the growth of regional powers in the developing world, increased problems of nationalism and ethnic strife, the proliferation of missile technology and weapons of mass destruction, and the continuing inclination of dictators to attack their neighbors. Radical disarmament may create an environment in which such threats develop more quickly. Our strategy should therefore look not only to imminent dangers but to preventive action against potentially dangerous future developments.

The Cold War force structure was centered on fighting the Soviet Union, primarily in Europe. Future forces will have to be designed to meet less predictable, more wide-ranging situations. One important role will be conventional deterrence and demonstration. The United States should make it clear that its armed forces will be used if necessary to pursue strategic goals. This will reduce attacks against America and its allies and citizens abroad.