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THE FAILURE OF DEREGULATION

A second opinion about a much-maligned decade

By Richard B. McKenzie

When I asked a local Barnes & Noble bookstore manager if my new book, *What Went Right in the 1980s*, was available, he said, "Oh, you mean *What Went Wrong in the 1980s*, don't you?" After I corrected him, he found the right book on his computer, and I followed him as he searched several sections of the store in which the book might have been filed: current affairs, new releases, business, economics. No luck.

The manager then turned to me and asked quite seriously, "*What Went Right in the 1980s*—could that be a book of humor?" After I assured him that it wasn't, he queried again: "Fiction?"

No, the book is neither humor nor fiction. It is a serious attempt to dispel a host of myths about the 1980s that are so thoroughly ingrained in people that reactions to the book are perhaps more instructive than the text itself.

Probably the most widespread reaction, even from those who should know better, is that no one could possibly write a whole book on the things that went right during that dark decade—especially not one that extends to 400 pages. When a friend asked for the book at the counter of the local Brentano's, a customer standing behind her muttered, "Short book, no doubt."

A telephone interview I had with a reporter from a major metropolitan newspaper is typical of media calls. He started his interview, as others have, with the question, "What *did* go right in

the 1980s?" I could tell by the tone of his voice that he was prepared only for a short and inconsequential listing. I told him that, for starters, gross domestic product had risen. He was amazed that production had not fallen.

Yes, during the '80s, national production of goods and services actually rose in constant-dollar terms by close to a third, which is the equivalent of annexing the entire German economy (East and West) or adding once again the production of Connecticut, Iowa, Kansas, Maine, Massachusetts, Minnesota, Missouri, Nebraska, New Hampshire, New Jersey, New York, North Dakota, Pennsylvania, Rhode Island, South Dakota, and Vermont. And the economy would probably have expanded by hundreds of billions of dollars more if the Federal Reserve had not been forced to throttle the growth in the money stock in order to reverse the inflationary spiral of the 1960s and '70s.

The reporter was obviously taken aback, but he was also confident that all of the increase was in services (with hamburger flipping being the dominant new job) and that the country had definitely "deindustrialized." Not so. I assured him that the industrial production index had risen during the '80s in line with the overall economy and stood at an all-time high in 1990. The country's manufacturing output in real-dollar terms rose faster than overall economic activity during the decade and in 1989 represented a slightly higher percentage of national production than in 1980 or, for that matter, any year since the late '40s.

"Well, we may have grown absolutely, but didn't the country's production decline relative to the rest of the world?" the reporter asked hopefully. Nope, not in the '80s. U.S. output as a percentage of world output did decline in the '60s and the first half of the '70s. But after the mid-'70s, the United States held its own vis-à-vis the total production of all other major industrial countries combined (with Japan being a notable exception). U.S. output as a percentage of the rest of the world's output, including Japan's, was the same in 1989 as it was in 1975.

With obvious astonishment, the reporter asked a concluding question: "Why then are so many people across the country convinced that the 1980s were a dreadful decade?" A tough question, no doubt, with no obvious single answer.

Many people just don't want to know the good news about the decade, a point that has been driven home by encounters with university colleagues. What continues to be remarkable about the reaction to *What Went Right in the 1980s* is people's inclination to find pat phrases to dismiss everything in it. *Scientific fiction* is one such term, used by someone who obviously wished that even the data on national production were not believable.

Clearly, a part of the answer is that hardship sells a lot of newspapers and magazines. So the media perhaps have an economic incentive to play up the failures and losses of the decade and to ignore the successes. That makes for a distorted picture of overall economic life. Another part of the answer may be that the country did lose more than a million manufacturing jobs during the '80s. But the country probably would not have been a world-class industrial power at the end of the decade had those jobs not been destroyed, largely through productivity increases.

The loss of manufacturing jobs was a worldwide phenomenon. Still, competition got tougher for many Americans, and the overwhelming majority of Americans responded by getting tougher themselves. Ford would not have the best-selling automobile in the country today, with quality to match, had it not faced the challenges it did in the early and mid-'80s. The '80s were a period of what the late great economist Joseph Schumpeter called "creative destruction." And although the '80s had some of both, there was much more creativity than destruction.

I'm now convinced, however, that many people just don't want to know the good news about the decade, a point that has been driven home by encounters with university colleagues. What continues to be remarkable about the reaction to *What Went Right in the 1980s* is people's inclination to find pat phrases to dismiss everything in it. *Scientific fiction* is one such term,

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At a recent happy hour attended by university staff and faculty, for instance, an administrator came in waving a local newspaper that featured a column of mine summarizing the themes of my book. "I'm not believing a word in this," she proclaimed.

"Sounds like Stalinism to me," snapped another administrator, without even reading the column. I asked politely how he could equate a recitation of many readily available facts with the work of one of the most ruthless men in history. "Well, it's this revisionist history thing," he explained, as if anyone who dares to correct a mistaken view is necessarily seeking to distort reality. I suggested that he read the book, knowing full well that he would remain content in his knee-jerk, uninformed assessment.

In a more private conversation at the end of the happy-hour

table, a medical professor challenged me politely but confidently on several fronts. "Surely the 1980s were a decade of greed," said the doctor.

No, greed was not invented in the '80s. And while greed is probably underrated as an economic motivation—even by the decade's critics—there is literally no evidence, aside from a few anecdotes about Wall Street and savings-and-loan crooks, that greed was more unbounded in the '80s than in previous decades. In any case, greed obviously did not end with the advent of a new, anti-profit-motive administration in the '90s.

One of the new administration's strongest supporters, for instance, recently was able to pull in a reported \$20 million for a single concert. Critics who have damned other entrepreneurs for their "princely incomes" now appear willing to excuse such a gargantuan paycheck, even though such a sum represents a rate of pay that equals or surpasses the so-called excesses of most '80s "paper entrepreneurs."

In fact, if charitable donations are a sign of selflessness, then the '80s were anything but greedy. Charitable contributions in inflation-adjusted terms rose at a substantially faster pace in the '80s than during the previous two-and-a-half decades. Philanthropy outpaced consumer debt, as well as purchases of goods and services that supposedly reflected the mood of the "me-ism" decade (e.g., jewelry, restaurant meals, and health clubs). Even corporate giving, as a percentage of corporate income, rebounded in the '80s to more than 3 percent of after-tax profits from less than 1.5 percent in the '70s.

"Ah, but the rich got richer while everyone else got poorer." The data are decidedly mixed. Yes, many rich people became much richer, but it is also true that many lower- and middle-income Americans got richer. Besides, the overwhelming majority of rich people made their money the old-fashioned way: They earned it. As Microsoft Chairman Bill Gates did, they took sizable risks and provided Americans with superior products on more favorable terms.

"But the rich made out like bandits when it came to taxes at the same time Reagan slashed welfare programs to the bone." Again, not so. Top-income earners paid a higher percentage of federal taxes in 1990 than in 1980. Total real dollars spent on

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welfare programs for low-income families and children rose by close to 20 percent during the Reagan years—at the same time that the number of poor people in the country actually modestly fell by 300,000. And during the decade, a family of four at the poverty-income line saw its real federal tax liability slashed by a whopping 75 percent.

"Surely the 1980s were a decade of debt." Indeed, they were for the federal government. However, it is wrong to assume the rise in private debt was largely unwarranted. A major unnoticed reason for the explosion of debt in the expanding '80s was the collapse of Americans' debt-to-asset ratios in the unstable, inflationary '70s. Much of the assumption of private debt in the '80s also went into real productive assets such as computers and houses, which explains why Americans' consolidated net worth (not including their considerable human capital) rose by 14 percent, or \$2 trillion, during the decade.

My friend the medical professor was incredulous, but she was willing to confess what I had suspected: "You know, Richard, I just don't want to believe that you are right."

An even more telling reaction came from a history professor (and an ardent critic of virtually everything Ronald Reagan ever did while in office). He indicated an interest in using *What Went Right in the 1980s* in a graduate course that would also include readings from critics of the decade. He asked where he could get a

copy, because he wanted to read the book first, a reasonable wish. I was flattered until he admitted, "I don't want to assign it if it is a *good* book." There was an obvious element of teasing in his voice, but there was also an element of truth. He had bought all of the myths about the decade, and a "good book" would clearly make it tougher for him to insist that the only possible righteous way to economic prosperity is through the halls of Congress and the federal treasury.

My historian friend is convinced, as are most critics, that the S&L disaster that became painfully evident in the last half of the decade reveals the theoretical and practical bankruptcy of Reagan's free-market policies. After all, the argument goes, the S&L industry was "deregulated" in the early '80s. But the S&L deregulatory statute was actually proposed under Carter. More important, the S&L problems hardly reflect "free-market poli-

cies," under which people are fully accountable for the risks they take. On the contrary, the S&L debacle reflects a "national industrial policy"—or, more accurately, a national *financial* policy—gone awry.

The S&L travesty was an economic disaster in the making for 50 years. For starters, the industry could not diversify its portfolio—it had to focus its loans narrowly on housing—and this increased its risk of failure. While this is an obvious point of departure in discussing the S&L crisis, it nonetheless makes critics of the '80s, who want to believe the decade fully caused its own problems, squirm.

The thrift industry was already in deep financial difficulty in the early '80s, primarily because of the inflationary spiral of the '70s. To compete with other investment opportunities, S&Ls had to pay escalating interest rates on their deposits. But because they already had full portfolios of low-interest, long-term loans, they had no way of generating the money necessary to do so. The failing industry desperately needed a bailout, but Congress and the Carter administration did not want to infuse it directly with federal funds. Instead they decided to allow S&Ls to seek high-risk, high-return real-estate investments while fully covering the added risks by expanding the federal deposit-insurance system. Because of that back-door subsidy, unwarranted risk taking—and occasionally outright fraud—became a pastime for many S&L bankers.

Contrary to the critics' claims, the debacle proved the flaws in government bailouts and industrial (financial) management, not free-market policies. The S&L policy ploy is one that Ronald Reagan should have spurned with the same vehemence that he opposed the national industrial policy recommendations of Walter Mondale in the 1984 presidential election.

But while critics of the '80s delight in faulting Reagan for the S&L problems, they consistently seek to dismiss my reasoning, not with effective counter-arguments, but with a glib rejoinder: "twisted argument." Given the facts, they understandably want the weaknesses of the person, not the policy, to be the focus of disdain. After all, the allure of industrial management from Washington is at stake.

At times, though, the critics of the '80s seem to relent in their

The '80s have been described as a decade of Ds: Decay, Decline, Deindustrialization, Debt, re-Distribution, and Despair. The facts make mincemeat of those fliprant characterizations, but many of the critics don't seem to want to be bothered by the facts, possibly because they have a stake in keeping the '80s down and out. It appears to be no accident that they accompany their sordid claims about the decade with calls for "change" or, more precisely, for reversal.

use of unwarranted claims. But they usually don't concede any real ground. Instead, they seek to shift the terms of the debate, as they did throughout the Reagan years. At the start of the '80s, the country was mired in a recession brought on by the severe anti-inflationary policy of the Federal Reserve (inaugurated in October 1979). The critics were then confident that the country had caught the "British disease." They anticipated a long-term malaise because nothing seemed to be working very well (the late '70s were indeed a period of practically no growth in worker productivity).

But once the '80s recovery began, the argument shifted to the problems of economic decay and "deindustrialization." When it became transparent in the mid-'80s that the economy was being transformed by a significantly more productive industrial base, the argument shifted once again, this time to concern over long-term decline relative to other countries. When it became evident that claim was groundless, the critics began to assert that the *real* problem was the "great U-turn" in worker wages caused by the unchecked greed of morally bankrupt capitalists.

With my book in hand and a lot of data to work with, any number of critics have told me, in so many words, "In spite of your evidence, *we* know better: The problem in the 1980s was attitude," which all too often translates to, "Don't bother trying to change my mind."

When I insist that some claims are worth checking, I can count on the critics to hang the albatross of political intentions around my neck. Obviously, the book is the work of an apologist for Ronald Reagan, they say—a notion which cannot be further from the truth. Although I supported many of Reagan's policies, I'm neither a Republican nor a Democrat (in 1992, I voted for Bill Clinton—or, rather, against George Bush). In good humor, I submit that I'm something far worse than a political ideologue: an academic economist who doesn't believe he has been able to tell the whole story of the '80s but who is convinced that he has made a contribution, albeit minor, to balancing an important policy debate.

I didn't conceive of *What Went Right in the 1980s* as a polemic. It emerged from a series of studies I undertook on various prominent policy claims that failed to reflect my own experience. In researching the claims, I was often *dumbfounded at the gap*

between the rhetoric and reality. I discovered only two years ago that I had assembled a book-length work, one that might catch others by surprise, which it obviously has.

The reaction has hardly been all negative. I have been struck by the amount of heartfelt gratitude from people across the country for providing, if nothing else, an alternative view, one that more accurately described the America they knew in the '80s. One radio talk-show host went so far as to suggest that the critics must have been living in outer space. I was especially struck by the comments of a woman from North Carolina who called in on the same program. She said, with eloquence that cannot be captured here, that she and her husband never made more than \$23,000 a year during the '80s, but they did improve their lot and were thankful for the chance to do their own thing and to have and educate their children. They now wanted "nothing from nobody."

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They want a return to the "good old days" of the '60s and '70s, of escalating government involvement in the economy—by way of health-care reform, managed international trade, expansive industrial policies, and labor mandates. Such a reversal requires, apparently, that Reagan's policies be trashed, and one of the best ways of doing that is to dump on the decade as a whole, to insist that the times were far tougher than they were and that the toughness of the times was all due to Reagan (with no help from Congress).

But contrary to the claims of the decade's critics, Ronald Reagan and his political cohorts should probably be given both far less credit and far less blame for what happened in the '80s

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than they have been given. After all, Congress was at work, and Ronald Reagan did not always get his way with Congress. And Reagan's policies were nowhere near as "conservative" and "free-market oriented" as the critics would like to believe.

During the Reagan era, for instance, government continued to expand in real-dollar and per-capita terms. Total government spending represented a higher percentage of national income during the Reagan administration (32.7 percent) than during the Carter administration (30.9 percent).

Reagan's main contribution to conservative government, if it can be called that, is that he may have helped to cap the upward march of government spending as a percentage of gross domestic product. I say "may" because government spending during the '80s was also capped relative to national production in most other major industrial powers, despite widely varying political philosophies in those countries. That fact makes one wonder whether it could have been "all Reagan's fault" (or credit). It's just as plausible to interpret the capping of spending as a global economic force at work, forcing governments to seek less onerous economic policies.

It is clear that not everything went right during the '80s. Competition got tougher for many worker groups, especially those Americans in previously protected (and unionized) markets and those Americans with

limited education. Crime continued to be a problem, especially in the inner city. Teenage pregnancy and divorce boomed. Too many Americans suffered a lapse of civility, frugality, and diligence.

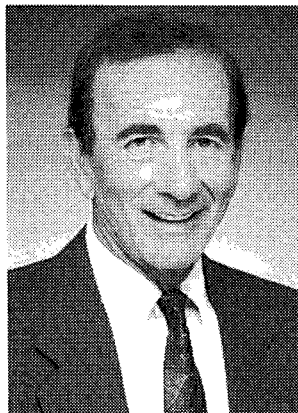
Nevertheless, in spite of all the problems, much did go right in America in the '80s. That is the bottom line that too few Americans, Bill Clinton included, are willing to accept. Clinton can thank his lucky political stars that his assessment of the "past 12 years" is largely wrong. In the considerable successes of the '80s lie the seeds of prosperity for the rest of the '90s and beyond.

Richard B. McKenzie, author of What Went Right in the 1980s (Pacific Research Institute), is a professor in the Graduate School of Management at the University of California, Irvine.

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Gunning for Change

By Liam T.A. Ford

A Chicago alderman wants to end the ban on handguns.

IN FEBRUARY, ILLINOIS STATE SEN. Rickey Hendon came home to discover that his house on the Westside of Chicago had been robbed. The burglary got more than the usual amount of press attention because the former alderman lost not only money but also an unregistered handgun. It has been illegal since 1983 for even the most law-abiding Chicago residents to own handguns; only guns owned before the ban was passed can be registered, and they must be re-registered every two years. Possession of an unregistered handgun carries a penalty of less than a year in prison or a \$500 fine.

Hendon was unapologetic. "I have a right to protect myself," the black Democrat told the *Chicago Sun-Times*. The police decided not to charge Hendon with violating the gun law because it wasn't clear who actually owned the gun.

Hendon's attitude is increasingly common among Chicago's black political leaders. During the recent primary campaign for the presidency of the Cook County Board, for instance, the leader of the Harold Washington Party caused a stir at a candidates' forum when he derided gun control as ineffective. Those who say gun control deters crime ignore recent findings by criminologist Gary Kleck that suggest guns are more often used to stop crimes than commit them, said David Reed, head of the party named for Chicago's first black mayor. "I'd rather be tried by 12 than carried by six," said Reed, a business consultant.

That sentiment is common among the residents of Chicago's tougher neighborhoods. It's easy for people with wealth and political power to push stricter and stricter gun control laws, notes Alderman



Alderman William Beavers: He says his constituents deserve the right to protect themselves.

William Beavers, who represents the working-class, mostly black South Shore district. The wealthy, he says, "can afford to pay a detective agency or some kind of police agency to act as security." His constituents, he argues, deserve the right to protect themselves.

Beavers is no stranger to gun crime. Before his election to the City Council 11 years ago, he spent 21 years in the Chicago Police Department, working some of the neighborhoods responsible for the city's nickname of "Beirut by the Lake." Now, for the second time in five years, he has proposed legislation to reopen handgun registration. The idea is endorsed by other prominent black political leaders, including activist Sokoni Karanja of the Center for New Horizons and Aldermen Virgil Jones and Robert Shaw, who feel that gun bans prevent law-abiding citizens from protecting themselves.

While the national press has sympathetically covered high-profile attempts by the Department of Housing and Urban Development and the Chicago Housing Authority to control guns in Chicago's federally funded housing projects, it has ignored black political leaders' challenges

to the city's draconian handgun-control laws.

"There's always been a kind of streak in the black community here of those who want to defend themselves," says Northwestern University law professor Daniel Polsby, an expert on gun issues. But that proclivity, notes Polsby, is counterbalanced by the trend—both nationally and in the greater Chicago area—away from ideas of "responsible gun ownership" and toward stricter gun control. "There's a tremendous amount of momentum in the culture to turn gun ownership into...an unacceptable thing," observes Polsby.

THAT IS CERTAINLY THE CASE IN CHICAGO, where the 1983 freeze has driven gun ownership underground. Since the freeze, the number of registered handguns has declined precipitously as owners have died or have failed to re-register. Just after the ordinance went into effect, there were about 400,000 handguns registered in Chicago. The Chicago Police Department says that number currently stands at 143,000.

Total official registration of all guns, including rifles, shotguns, and handguns, has declined at a similar clip. In 1982, residents registered 727,000 guns. Twelve years later, that number stands at 215,134, even though Chicagoans can still legally buy long guns. While numbers of registered weapons have fallen, few observers assert that the smaller numbers mean fewer weapons actually in circulation.

The 1983 handgun registration freeze is a legacy of one-term Mayor Jane Byrne, who capitalized on the anti-gun sentiment that flourished in the early 1980s in the wake of the assassination attempt on Ronald Reagan. The suburbs of Morton Grove, Evanston, and Oak Park outlawed handguns about the same time Chicago did, although their bans included even existing weapons.