The Real Reagan Lesson for Romney/Ryan

George Gilder

Mitt Romney and Paul Ryan could soon be facing a David Stockman moment. Mr. Stockman was President Reagan's young, first-term budget director assigned the titanic task of retrenching government spending in the midst of the Cold War. In this role, he made the covers of all the most fashionable magazines as "Mack the Knife" or some other compassionless conservative slashing the growth rate of federal spending to a Dickensian 2% above the inflation rate.

Yet Mr. Stockman ended up capitulating to his critics, abandoning supply-side economics as a naïve mistake, and skulking off to write books and articles about the virtues of "spreading the wealth around."

Mr. Stockman has re-emerged in this election year echoing President Obama. He writes in the New York Times that vice-presidential candidate Paul Ryan's "sonorous campaign rhetoric about shrinking Big Government and giving tax cuts to 'job creators' (read: the top 2%) will do nothing to reverse the nation's economic decline and arrest its fiscal collapse." Fashioning himself as the nemesis of "crony capitalism," Mr. Stockman blames much of the current economic crisis on the Republicans' supposed "tax cuts for the two percent." Here he's taken a sure path to lavish media laurels as a heroic truth-teller applauded by all the Democratic cronies.

How can Messrs. Romney and Ryan escape the Stockman fate?

By grasping the Peter Drucker wisdom: Don't Solve Problems. When you solve problems, you end up feeding your failures, starving your strengths, and achieving costly mediocrity. You become a Stockman. Instead of solving problems, pursue opportunities.

Enlarge Image


Corbis

Ronald Reagan in the White House with his first budget director, David Stockman.

Everyone knows about America's liabilities. Everyone knows that they will have to be addressed and many know that Mr. Ryan's plan will address them. But the real opportunity is to transcend them by reversing the devaluation of America's human and capital assets, which is what renders the liabilities increasingly unsupportable.

Today, 70% of government discretionary spending devalues human assets by paying people to be unemployed, unmarried, retired, sick, poor, homeless, hapless, disabled or drugged. With the eclipse of family life in the inner cities of America, we have created a welfare state for women and children and a police state for boys. Supposed problem-solving programs accomplish nothing beyond expanding themselves by spreading dependency and tragic waste. Reforming them is all upside.

Such upside policy change can redeem all the stocks and bonds and hopes for initial public offerings dashed and devalued by the maze of taxes and regulations; all the land wasted and ruined by ethanol and windmills and druidical sun henges and water rules; all the industrial innovation and venture capital sicklied over by a pale cast of green goo; all the real energy resources capped and crimped by litigation, chemophobia and specious species bans; all the real estate wasted and plundered by federal blight and insurance scams; all the youthful aspirations and talents depleted by debt loads at schools of self-esteem; all the banks debauched by federal insurance, zero interest rates, Treasury privileges and social causes; and all the military deterrence and innovation depreciated by disarmament pandering from President Obama and his team.

Mr. Stockman may have disdained Reagan, but Reagan understood the Drucker rule. Reagan horrified David Stockman by raising government spending massively more than his predecessor did. He did so to pursue the opportunity of leading the West to victory in the Cold War.

Reagan's near-trillion-dollar bulge in defense spending transformed the global balance of power in favor of capitalism. Spurring a stock-market, energy, venture-capital, real-estate and employment boom, the Reagan tax-rate cuts and other pro-enterprise policies added some $17 trillion to America's private-sector assets, dwarfing the trillion-dollar rise in public-sector deficits and creating 45 million net new jobs at rising wages and salaries.

Ultimately the Reagan boom would raise private-sector assets by another $60 trillion over 20 years, not halting until 2007. Under the Obama administration, for the first time since the 1970s, the U.S. economy is suffering capital flight. For the first time ever, as economist David Malpass has reported, it is experiencing a net emigration of high-technology talent.

The Romney-Ryan opportunity is an all-upside campaign to reverse these crippling trends.

The challengers understand that capital and labor are not competitive but complementary. As workers become more productive, employers hire more—not fewer. Capital linked with private-sector knowledge releases creativity and new employment. With drastically lower marginal tax rates on income and capital formation, Mr. Romney's plan would endow millions of more jobs at higher pay. To further spur companies away from tax-and-profit avoidance—and toward creativity and entrepreneurship—Mr. Romney might also embrace Mr. Ryan's suggestion that the world's highest corporate rate eventually be replaced with an 8.5% business-consumption tax applying to the difference between costs and sales.

With their skills, experience and improving health, seniors could remain in the workforce as assets rather than becoming liabilities for their diminishing numbers of grandchildren. Saving Social Security and Medicare is an opportunity for keeping seniors healthy and in the workforce rather than driving them out by punitive tax rates on their earnings and halting innovation in government-directed health care.

The most obvious rule of social science is that people will abuse any free good. The price of "free" evokes unbounded demand while choking off supply. In the perverse feedback loops of "free," free health care comes to mean hypochondria, illness caused by needless exams and treatments, queues for an ever-expanding portfolio of mediocre services, and ultimately euthanasia under government bureaucracy. Free drugs mean widespread addiction to existing medications and an end to medical innovation. Free money, manifested in the near zero-interest-rate policy of the Federal Reserve, diverts the wealth of savers to favored governments and crony capitalists while creating shortages for everyone else.

A supply-side change in policy can effect an instant and sharp improvement in the value of all entrepreneurial assets. If Messrs. Romney and Ryan win election and choose to pursue this path, they can galvanize another American century.

Mr. Gilder is a founding fellow of the Discovery Institute. His books include "Wealth and Poverty: A New Edition for the Twenty-First Century" (Regnery, 2012).

A version of this article appeared August 31, 2012, on page A15 in the U.S. edition of The Wall Street Journal, with the headline: The Real Reagan Lesson for Romney-Ryan.

q