

AMERICAN DOMESTIC POLICY AND THE REAGAN
PRESIDENCY: THE END OF 'INTEREST GROUP
LIBERALISM'?*

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According to Prof. Theodore Lowi, in his book *The End of Liberalism*,¹ the U. S. has been going through a crisis of public authority during the past two decades. A revolution in public philosophy and governmental practice, begun in the 1930's, has replaced the original regime organized under the constitution of 1789. This new regime, which he calls "The Second Republic of the United States", is based on a philosophy he calls "interest-group liberalism", and a governmental practice he calls "The State of Permanent Receivership". The first republic was characterized by its federal structure, by legislative domination, and by a philosophy of limited government. But Roosevelt's revolution in the 1930's led to new functions of government (not just larger budgets)—most particularly, regulation and redistribution. The New Deal also began the movement toward delegated power. Institutionally, there emerged an executive-centered government—which has now become a White House centered government. And politically, interest-group liberalism (or "pluralism") has sanc-

* This essay was prepared for the "Roundtable Seminar" sponsored by the Center for American Studies of Nanzan University, and was presented on October 17, 1981. It is an attempt to bridge the gap between the abstract and historically weighted treatments of political institutions and public policy by political scientists, and the more concrete and timely analyses of journalists. The essay has been revised in minor ways. However, the 1983 budget proposals, which do not reflect any substantial shift in strategy, have not been incorporated into this presentation.

tioned the emergence of a mode of policy making by bargaining among the most powerful affected interests, supervised by the executive. In Lowi's words:

The institutionalized politics of what is now called the Second Republic can be summarized as a simple two-part model: (1) The national government by some formal action monopolizes a given area of private activity. . . . (2) Following that, a program is authorized and an administrative agency is put into operation to work without legal guidelines through an elaborate, sponsored bargaining process in which the broad area monopolized by the government is given back piece by piece as a privilege to specific individuals or groups on a case-by-case basis (often called "on the merits").²

It would seem that this sort of political and governmental practice would put big business in a very favorable position, vis-a-vis other interest-groups. And if Ronald Reagan is the friend of big business that many assume him to be, then we might assume that Reagan also will reinforce and reconfirm the characteristics of the "Second Republic". However, Benjamin Barber, among others, has questioned whether Reagan is such a friend of big business:

1. Ronald Reagan believes devoutly in a capitalism of risk-taking adventurers . . . and genuinely free and competitive markets, while big business believes in a capitalism of risk-minimizing bankers and government-protected monopolies.
2. Ronald Reagan is willing to buck the unions, unsettle the social equilibrium, and throw social justice out the window in the name of entrepreneurial individualism and supply-side optimism, while big business - believing only faint-heartedly in supply-side economics and not at all in individualism - prefers to see the unions paid off, the urban populace tranquilized, and justice and charity provided for by the the government.
3. Ronald Reagan is moved by an old-fashioned, politically efficacious rhetoric of the frontier - heroes, adventurers, risk-takers, voluntarists, entrepreneurs, go-getters, and do-it-yourselfers - while big business responds to the modern language of order, security, organization, bureaucracy, and rationality, and sees government as its primary partner in translating this language into reality.³

If this characterization of Reagan is correct, than we should expect

to find that Reagan departs from the basic philosophy and governmental practice of the "Second Republic". In order to find out whether, or to what extent Reagan is moving away from the basic political and governmental assumptions of the last 50 years, I have reviewed the major tax and policy proposals that were signed on August 13. In Table 2, (p. 50) a selection of the provisions of those bills are arranged according to how they relate to the major characteristics of the Second Republic".

The characteristics of the "Second Republic" mentioned by Lowi are:

- A. Delegation of power (personal discretion) to the President.
- B. Delegation of power to decentralized administrative agencies.
- C. Regulation
- D. Redistribution
- E. Increased institutional advantage of the executive
- F. Maintaining Federal dominance over the states
- G. Subsidy of private powers (through cash, credit or benefits-in-kind.)

The first six months of Reagan's presidency have been devoted to passage of a broadly conceived economic program. There have been segments of the political right wing which have become impatient with the priority given to economic issues. Groups like the "Moral Majority" have wanted quick action on social/moral issues like abortion or school busing for racial integration. Although Reagan claims that those issues are not being ignored (or "put on the back burner") in fact he recognizes that such issues are far more divisive and potentially damaging to his Congressional coalition and his support in the general public than economic issues.

During the election campaign, Reagan was advised by his poll takers that Carter was vulnerable on two counts. First, many people did not personally like Jimmy Carter. (While on the other side, Reagan's image problem was to persuade people that he was trustworthy and not to be feared as a trigger-happy cowboy.) Carter's second point of vulnerability was on economic issues. Many people had very little confidence in the economy and Carter's ability to manage it. This was

the basis of Reagan's simple appeal, in the debate, to "ask yourself one thing - are you better off now than you were last year".

The strategy adopted by the Reagan administration for implementation of its economic program was for Reagan to present a broad package of economic reforms (tax and fiscal), and then try to avoid compromising on the major elements. The first element in the program - tax cuts - had been the mainstay of Reagan's economic policy during the campaign. In the primaries, it was nearly the whole of Reagan's economic program. It so dominated his economic rhetoric that primary opponent George Bush called it "Voodoo economics", because there was no apparent way that the budget could be balanced through cutting taxes, except through "magic". After the primaries, Reagan began to admit that the budget would have to be cut. But he was always very vague about where and how the cuts would be made. Reagan's tax program originated with a bill first introduced into Congress in 1977 by Rep. Jack Kemp (R.-N. Y.) and Senator William J. Roth (R.-Del.). The Kemp/Roth bill called for a 3 year income tax cut of 33%, future indexing of taxes to the inflation rate, and reductions in business taxes. Reagan has stuck with this basic plan through the political battles of this past spring, though the details have changed since he first made a concrete proposal on February 18, 1981. At that time Reagan made a proposal that would have cut taxes by 53.9 billion dollars in 1982. The Congress, and especially the Democratic controlled House of Representatives, was not so enthusiastic about such a large tax cut. So on June 4 Reagan offered an alternative bill. It retained the essential elements of the Kemp/Roth formula, but the proposed cut would be only 37.4 billion dollars. The final tax bill passed by both houses and signed by Reagan on August 13 is estimated to reduce government revenues in 1982 by 37.7 billion dollars. The major portion of the tax cut goes for individual income taxes and business taxes. (For a review of the major elements of this program, see Table 1, p. 49.)

The second element in Reagan's economic strategy involved budget cuts. It has been the most controversial and politically most difficult part of his program. Reagan had asked for 48.6 billion dollars worth of reductions in his March 10 message to Congress. Resistance to such

a large cut was strong in Congress. But with the defection of a group of Southern Democrats in the House of Representatives, Reagan was able to get a bill passed which cut 35 billion dollars from the projected 1982 spending level. Because there seemed to be a general consensus that spending cuts were required, most of the controversy focused on where the cuts would be made. The strategy of pressing a tax cut first created pressure to make significant budget cuts. (But when the budget cuts proved too small to keep the budget deficit under 50 billion dollars, the strategy backfired.) In addition, Reagan used the Congressional budget process known as "reconciliation" to bring unity to a political process that might have degenerated into a political nightmare. At one point, it appeared that the process of cutting might unravel, when Reagan's suggested social security cuts raised a storm of protest. But the crisis was contained when Reagan compromised on the social security cuts.

There are four main features of the Reagan budget proposals for 1982: (1) substantial increases in the defense budget (from \$162.1 billion in 1981 (estimated) to \$255.6 billion in 1984); (2) commitment to a "social safety net" of income security programs (which are scheduled to increase from \$241.4 billion in fiscal year 1981 to \$308.8 billion in 1984); (3) across the board reductions in social welfare programs

TABLE 1: MAJOR PROVISIONS OF TAX CUT

A. Individual Tax Cuts

1. 29% cut in all individual tax rates, over 3 years
2. Cut top rate on unearned income to 50% (from 70%)



3. Index taxes to the rate of inflation (beginning 1984)
 4. Breaks for married couples, for child care, charitable contributions, sale of residence, and foreign income.
- B. Business Tax Cuts
1. Accelerated depreciation of investments in plant and equipment
 2. Research and development tax credit
 3. Miscellaneous changes in investment tax, small business accounting, and incentives.
- C. Miscellaneous
1. Reductions in taxes for small producers/owners, and newly discovered oil
 2. Incentives for saving
 3. Reduction of estate and gift taxes

TABLE 2: SELECTED PROVISIONS OF BUDGET BILL*

(U=undermines, and S=supports the "Second Republic")

- A. Delegation of Power (personal discretion) to the President.
1. There were no provisions directly affecting the personal discretion of the President. However, when the stock market failed to respond to the President's budget cuts, there was serious talk among Senate Republican leaders, and White House staff about giving temporary authority to the President to impound funds authorized and appropriated for various agencies. This authority had been taken away by the Budget and Impoundment Control Act of 1974.
- B. Delegation of Power to Decentralized Government Agencies
1. Allowed the Secretary of Housing and Urban Development to keep up to 15% of the available contract authority for all assisted housing for specified purposes. (S)
 2. Changed the Federal Communications Commission's permanent authorization to a two year period. (U)
 3. Allowed one chamber of Congress to veto safety standards and regulations of the Consumer Product Safety Commission if the other chamber does not object. (U)
 4. Made regulations establishing parental contribution to General Student Loan program subject to a one-house veto. (U)
- C. Regulation.
1. Required the Secretary of Housing and Urban Development to review Communities' performances under their grants to find out if primary objectives were met. (S)
 2. Deleted an existing law requiring certain small communities to prepare plans for housing assistance as part of their grant applications. (U)
 3. Directed the Secretary of Transportation to hire a financial institution to arrange for the sale of Conrail common stock owned by the Federal government. (U)
- D. Redistribution.

1. There were no new provisions with a redistributive impact.
- E. Increased Institutional Advantage of the Executive.
1. There were no specific provisions of the budget bill which gave the executive an institutional advantage. However, the general process by which the bill was passed—the reconciliation process—was used to the advantage of the executive.
(S)
- F. Maintaining Federal Domination Over the States.
1. Required states to amend their unemployment compensation laws to allow for certain changes in Federal law. (S)
 2. Eliminated the requirement that states provide up to 13 weeks of unemployment compensation insurance (which had previously been required when the unemployment rate exceeded 4.5% nationally. (U)
 3. Required a community or state seeking a Community Development Block Grant to prepare a statement explaining its goals and how the money would be used.
(S)
 4. Gave the states the option to administer the small-cities CDBG program. (U)
 5. Reagan made proposals to convert many programs into block grant (rather than categorical) programs. These met with limited success. In education, a number of small programs were combined into a block grant program for the states. In health, four block grant programs were established—for Preventive Health Services, for Alcohol, Drug Abuse and Mental Health, for Primary Care, and for Maternal and Child Health. (U)
- G. Subsidy of Private Powers
1. Reduced eligibility of workers for Trade Adjustment Assistance. (U)
 2. Provided technical assistance to industries affected by import competition. (S)
 3. Allowed the Railroad Retirement System limited authority to borrow money from the treasury to cover temporary funding shortfalls. (S)
 4. Extended authorizations for crime and riot insurance. (S)
 5. Prohibited the sale of federal flood insurance to new construction on undeveloped coastal areas. (U)
 6. Eliminated subsidies for maritime construction. (U)
 7. Changes in welfare policy were in line with the administration's attempts to make the programs a "safety net" for the poor rather than an income supplement for those with marginal incomes. (U)

* These provisions may reflect Congressional preferences. But even when this is the case, the President's priorities are shown by the fact that he wasn't willing to fight against the provision. These provisions do not reflect the general concern with budget cutting. Lowi makes a point that government isn't just large; it has changed its functions. Of course budget cutting could at some point interfere with an agency's ability to perform a function.

and tighter eligibility requirements; (4) consolidation of many categorical grant programs into block grants at substantially reduced levels of funding. ⁴ (See Tables 3, 4, and 5)

On August 13, President Reagan signed both the tax cut and the budget legislation. Since that time, however, the political battle of the economy has continued. (It appears that the cartoon reproduced here aptly characterizes the situation.) Interest rates have remained high, with the Federal Reserve Board showing no signs of letting them come down with looser money policy. And with investment and production remaining depressed, the economy will probably not produce enough tax revenue to keep the budget deficit under 50 billion dollars, for 1982. The tax package is estimated to reduce revenues by 280 billion dollars in the next three years. But the the budget was cut by only 130 billion dollars for this period. This prospect of huge deficits adds pressure to keep interest rates high, and production depressed. Loss of confidence in the economy among Wall Street brokers and institutional investors has created a crisis atmosphere. Under pressure from faltering economic prospects, Reagan finally made a bid to reduce the deficit by proposing further budget cuts of about \$13 billion for 1982. But passage of these cuts is still far from certain.

TABLE 3 BUDGET REDUCTIONS—OMNIBUS RECONCILIATION ACT (HR 3982)

	Reduction (\$ in billions)			
	FY 1982	FY 1983*	FY 1984*	FY 1982-84*
1. Entitlements, Summary	13.4	14.3	16.1	43.8
Food stamps, child nutrition, AFDC and CSE	4.4	5.1	5.6	15.0
Medicaid	0.9	0.9	1.0	2.8
Medicare	1.5	1.1	1.3	3.9
Subsidized housing	0.1	0.3	0.7	1.2
Social Security	2.0	3.7	4.6	10.3
Other entitlements	4.3	3.1	3.0	10.5
2. Other Programs, Summary	21.8	29.7	35.3	86.8
Total Reductions	35.2	44.0	51.4	130.6

Source: White House Fact Sheet, Press Release, August 13, 1981.

* Targets for future years. Only the FY 1982 cuts are contained in the Omnibus Reconciliation Act.

There are two aspects of the budget cutting process that are noteworthy: the institutional process and the political (interest-group) process. Let us look first at the institutional process. In 1974 the Congress reformed the budget making process, partly in response to the growing dominance of the executive branch. The "Congressional

TABLE 4 COMPARISON of CBO BASELINE, BUDGET RESOLUTION TARGETS AND RECONCILIATION CUTS, BY FUNCTION

	CBO Baseline Projections	First Budget Resolution Targets	Total Required Cuts	Actual Reconciliation Cuts
National Defense	183.8	188.8	+5.0	2.5
International Affairs	11.4	11.15	.25	.369
General Science, Space and Technology	7.0	7.0	—	.053
Energy	11.4	6.0	5.4	4.7
Naturalresources and Environment	14.3	12.4	1.9	1.0
Agriculture	6.5	4.5	2.0	1.4
Commerce and Housing Credit	6.4	4.0	2.4	1.3
Transportation	22.6	20.4	2.2	1.9
Community and Regional Development	11.1	8.7	2.4	1.1
Education, Training, Employment and Social Services	35.9	26.85	9.05	6.4
Health	76.6	73.35	3.25	2.9
Income Security	255.7	239.7	16.0	10.4
Veteran's Benefits and Services	25.1	24.05	1.05	.447
Administration of Justice	5.0	4.45	.55	.224
General Government	5.4	4.9	.5	.295
General Purpose Fiscal Assistance	6.4	6.4	—	.139
Interest	88.0	85.7	2.3	.024
Undistributed Offsetting Receipts	-33.7	-32.9		
Total	738.9	695.45	49.25	35.151

Sources: Office of Management and Budget, *Fiscal Year 1982 Budget Revisions*; Congressional Budget Office, *Baseline Budget Projection: Fiscal Years 1982-86*.

TABLE 5 THE REAGAN BUDGET PLAN, FY 1981-84 (\$ BILLIONS)

	1981	1982	1983	1984
Outlay Projections, Carter Budget	662.6	639.3	817.3	890.3
Programmatic reductions	-6.4	-48.6	-66.3	-81.2
Already in Carter budget	-0.3	- 8.3	- 9.1	- 9.7
Net outlay reductions	-6.1	-40.3	-58.1	-71.5
Programmatic Increases*	5.6	10.7	23.5	29.1
National defense	3.9	9.5	21.7	27.2
Other	1.6	1.2	1.8	1.9
Reestimates adjustments	-7.0	-14.4	-20.9	33.4
Future Reductions	-	-	-29.8	-44.2
Revised Outlay Projections	665.2	695.3	732.0	779.3

Sources: Office of Management and Budget, *Fiscal Year 1982 Budget Revisions*; Congressional Budget Office, *An Analysis of President Reagan's Budget Revisions for Fiscal Year 1982*.

Budget and Impoundment Control Act" established a process for bringing some overall rationality to the budget making process. Prior to this, Congressional Committees worked independently on authorizations and appropriations, and overall spending levels were not a consideration in the committee process. The lack of coordination created pressure for a larger and larger budget, as each program and each committee sought maximum amounts for its own concerns, without regard to overall totals. With the new process, each year the Congress determines the overall level of taxes and spending through two concurrent resolutions. (A concurrent resolution, which does not have the force of law, expresses the joint opinion or agreement of the House of Representatives and Senate.) The first concurrent resolution, adopted in the spring, sets budget targets for the following fiscal year (starting October 1). The second resolution reconfirms or changes the totals projected in the first resolution, and sets an actual ceiling on spending and a floor on taxes. This second resolution also directs the committees in both houses of Congress to recommend changes in legislation which are voted on in what is called a "reconciliation bill". The passage of this bill is called the reconciliation process. This reconciliation process was intended to strengthen the

role of the Congress in the budget process. One effect of this process seems to be a strengthening of the budget committees within the Congress. But Reagan, at the suggestion of Senate Republicans, has shown that this process can also be used to strengthen the role of the President. Reagan used his influence in every aspect of the process, and effectively cut or saved most of the programs that he had targeted. According to Allen Schick, of the Congressional Research Service, over 75% of the reductions approved by the Senate Budget Committee were initiated by the executive.

The congressional budget process has not altered the status of the President's budget as a recommendation, but it can strengthen the chief executive's capacity to win approval of his budget. Without a budget process of its own, Congress would only consider individual issues; it would not have to act on the President's program. Opponents would not have to attack the President's fiscal policy; instead they could express support for a balanced budget, less spending, and other shared values while going their own way on particular bills. In 1981, Reconciliation deprived Congressional Democrats of this option. They were forced to consider the President's package whole and on his own terms. They were unable to structure budget decisions on a program by program basis, and, as the votes in the House showed, the President was at a considerable advantage. ⁵

So the political role of the President (if not his institutionalized personal discretion) has been potentially increased with the use of the new congressional budget process. This is hardly a step away from the executive domination, or "Presidential government", that has been characteristic of the "Second Republic". However, it doesn't seem likely that the political circumstances which made this use of the budget process possible will reoccur frequently. As Allen Schick, specialist with the Congressional Research Service, suggests, "expanded reconciliation will not be a budget process for all seasons."⁶

The interest group process was telescoped into the budget reconciliation process. To some extent, this led to an attenuation of the normal routines of interest group politics that have been the mainstay of "interest group liberalism". According to a Staff Associate of the House Budget Committee:

The sheer mass of the reconciliation bill, which altered the course of more than 250 programs worth \$36 billion, and the abbreviated time frame for considering the changes, prevented groups from singling out danger to specific programs. In addition, the question of whom to lobby became increasingly slippery. Authorizing committees pointed to the budget committees as the ultimate enforcers of cuts, while budget committee members insisted that they were mere 'facilitators', keeping the reconciliation plans on schedule, making suggestions, but ultimately playing no direct role in the actual drafting of cuts. Lobbyists for targeted programs were forced to run between authorizing and budget committee members and staff, looking for places to interject their views. 7

This break in the normal routines, however, did not mark a turn away from the significant role that group organization and bargaining have played in political life. As two academic observers have noted:

The President's success does not indicate the irrelevance of interest groups. On the contrary, it indicates that one set of interest groups has out-organized and out-gunned its rivals, and helped to elect a new president and to bring his policies into effect, in part using to perfection the techniques pioneered by the new politics interest groups of a decade ago. 8

The impact of the Reagan administration on American political life has been quite dramatic. And many have been quick to detect a fundamental shift in the direction of political life. This is seen by some as a natural reflection of the conservative trend in a number of areas of public opinion. As Professors Ladd and Lipset note, "It has become something of an article of faith as the 1970's end that Americans are moving away from liberal values and perspectives, toward commitments—decidedly more conservative than those that prevailed in the past."⁹ Russell Baker's immediate assessment, then, is that "in the end even the Democrats were agreeable to the death of the New Deal, which took place this week at the capitol."¹⁰ And according to Martin Tolchin:

(Reagan has) engineered a revolutionary change in the direction of government, reducing its size, powers and appetites. (The President has) effectively taken

control of the Congress, raising questions about the ability of the House and Senate to compete on anything like an equal footing with a popular President. . . .¹¹

However, our review of actual legislative outcomes, as well as the institutional process of politics, shows that Reagan's proposals and their impact are something less than revolutionary. The political process and legislative program is neither wholly supportive of the "Second Republic" characteristics mentioned by Lowi, nor is it totally counter to them. This conclusion is endorsed by two close academic observers, Professors Smith and Carroll:

Philosophically, and to some extent programmatically, the Reagan administration is trying to strip down the responsibilities of the federal government for social policy to the extent that this is politically feasible and to encourage state and local governments and the private sector to meet social needs. The Reagan approach would repeal a good part of the Great Society, particularly categorical grant programs, but it would leave intact most of the original New Deal approaches.¹²

Whether or not this is a betrayal of the true right wing conservatives, who have harboured a lonely hatred of the New Deal, is for the most part, a moot question. For in fact, public opinion has not shifted so dramatically or consistently in the conservative direction as many believe. After a long and detailed analysis of a decade of changes in public opinion, Ladd and Lipset conclude:

What can be said about the larger state of opinion in domestic matters is that, since the 1930s, the large majority has been socialized by developments to look for government as a solution to both national and a variety of personal problems. Although events of the past decade and a half have resulted in considerable distrust of big institutions, including government, and most people would like to cut them back in size and power, there has not been an equivalent reduction in the propensity to turn to government. When this orientation is put in the context of the continuing desire of Americans to improve the situation of the under-privileged and minorities, it is likely that the political system will continue to seek to produce solutions to expressed social needs. A policy of "benign neglect" will not be popular, even when warranted.¹³

Of course, public policy is determined by many factors in addition to public opinion. And an overall evaluation of the Reagan administration is not possible for many months and years to come. Reagan now faces the consequences of high inflation coupled with a large deficit, a Congress which is increasingly resistant to further budget cuts, and a large number of potentially diverting issues. Reagan, however, seems to have chosen to establish the reputation of his administration by its ability to cut taxes and the budget. As the economy moves in its own ways, however, Reagan may well need to take one of the social/moral issues off the "back burner" to get the public attention away from the continually dismal news of the economy. The greater danger, of course, is that he will be tempted to turn an international problem or incident into a crisis—in order to divert and regiment the population and cement a coalition in Congress based on the sacrificing of the domestic budget to the needs of the military and the wishes of Wall Street.

FOOTNOTES

1. Theodore Lowi, *The End of Liberalism: The Second Republic of the United States* (New York: 1980); second edition.
2. Ibid., p. 278.
3. *The New York Times Weekly Review*.
4. See John R. Gist, "The Reagan Budget: A Significant Departure from the Past", *P. S.* Vol. XIV, No. 4 (Fall, 1981), pp. 738-746.
5. Allen Schick, "In Congress Reassembled: Reconciliation and the Legislative Process", *P. S.* (Fall, 1981), p. 751.
6. Ibid.
7. Jean Peters, "Reconciliation: What Happened?", *P. S.* (Fall, 1981), p. 732.
8. Bruce L. R. Smith and James D. Carroll, "Reagan and the New Deal: Repeal or Replay?" *P. S.* (Fall, 1981), p. 765.
9. Everett Carl Ladd and Seymour Martin Lipset, "Public Opinion and Public Policy", in Peter Duigan and Alvin Rabushka (eds.), *The United States in the 1980's* (Hoover Institution, 1980), p. 52.
10. *The New York Times*, August 1, 1981.
11. "The Troubles of Tip O'Neill", *The New York Times Magazine* (August 16, 1981), p. 30.
12. Op. Cit., p. 764.
13. Op. Cit., p. 82.