by professionals of both parties, the presidential election was effectively over by August at the latest, there is no excuse for the President's decision not to help other candidates. The campaign was run as if Nixon were in a neck-and-neck race, as though the slightest use of the forbidden word "Republican" would have instantly triggered a stampede of prospective Nixon voters into the McGovern ranks.

In truth, there was very little danger of this. In polls taken throughout the last three months of the campaign, most anti-McGovern Democrats and independents were not merely toying with the idea of deserting McGovern, but were absolutely determined to do so no matter what else was said and done in the campaign. Even if a Nixon appeal for lesser Republican candidates had failed, there is no reason to believe that these voters would have switched to McGovern. He was too thoroughly discredited for that. Moreover, the fact that Nixon is a Republican is hardly the country's best-kept political secret. He has, after all, run on the party's national ticket in five of the last six elections, the highest identification of a single man with a party in all of American history. In elections when he was not on the ticket, from 1954 up to and including 1970, he played the role of the slashing, abrasive party leader. No one wanted him to repeat, as a president seeking a second term, the tone of those midterm performances, but the notion that large numbers of moderate-to-conservative Democrats would have gone to McGovern as a result of being reminded that Nixon is a Republican is, in the circumstances, ludicrous.

A second reason for the Republican failure may have been the Watergate disclosures. Most poll data confirm two facts about Watergate: one, that Democratic charges and newspaper accounts had increasing impact on the voters as the campaign progressed and, two, that the disclosures hurt Nixon's candidacy little if at all. It is at least a possibility that millions of voters, disturbed by Watergate but totally alienated by McGovern, decided to rein in the administration by voting Democratic for lesser offices. A major motivation behind the ticket-splitting trend in recent elections is the growing desire of the electorate not to put too much power in any one place, lest it be abused. November 7 was the king of all ticket-splitting elections, and Watergate may have contributed significantly to this result. Needless to say, the Republican party cannot prevail against serious opposition if large numbers of Americans come to equate a Republican administration with cynicism and corruption.

But the failure of realignment in 1972 goes, I think, considerably deeper than temporary issues or tactics. Fundamental realignments of the past — 1828, 1860, 1896, 1932 — have turned on an overwhelming issue or cognate set of issues that divided the whole country into a majority and a minority to such an extent that the division took on party lines. In 1828 and 1932 the overriding issue was control of the nation's destiny by a narrow, old-fashioned, albeit talented elite. In 1860, the issues were slavery and Union, and the country divided geographically. In 1896, the nation's miners and rural folk captured a party more thoroughly than McGovern ever dreamed of, and threatened to destroy America's industrial centers by their insistence on a single panacea, the free coinage of silver. The rural South and West voted solidly for Bryan, but the industrial East and Midwest won a victory and forged a majority for stable progress that endured until the Depression.

There was no such landmark issue in 1972. George McGovern tried to introduce one — Vietnam — but that attempt was, as the *Washington Post* stated in its post-election editorial, his single most disastrous error of the campaign. "Looking back on it now," the *Post* said, "one can easily see the magnitude of the mistake that was committed in making the Vietnam war and people's revulsion against it the centerpiece of the Democratic presidential campaign. And that is not only (or even especially) because Mr. Nixon held all the high cards. Rather it was because the heritage of the Vietnam war remained the most politically divisive and emotionally destructive element within the Democratic party itself, the thing above all others that tended to aggravate tensions between class, generation, and region, and to bring forward suspicion, self-justification, painful memory, and the rest. The McGovern campaign thus became exclusionary in a special way. It could not and did not reach out beyond certain limits." Instead, when in the decisive summer period the McGovern people began to realize that Vietnam wouldn't do the trick, they branched briefly into other issues — tax reform, redistribution, and the rest — that contracted the McGovern base even further. In the end, the election transcended the issues, including Vietnam, and became a referendum on George McGovern, his supporters, and what their coming to power would mean to the fabric of American society.

That being said, it should not be forgotten that insofar as Nixon used issues, they were conservative issues: peace through strength, no surrender in Indochina, anti-busing, anti-crime, anti-tax. But no one issue caught on in such a way that its onus spread beyond McGovern and his immediate circle to the rest of the Democratic party. There was no realignment issue.

My own feeling is that of all the issues that sank McGovern, a single one stands out as a pro-Republican realignment issue of the future: taxation and its inseparable companion, the size and function of government. In the past decade the growth of Federal programs and spending has accelerated to the extent that the country must make a landmark decision on what government is all about. Either taxes will rise, or government will be drastically reduced. There is no third way this side of gigantic deficits and economic chaos.

By its very nature the spending-and-tax issue is one that cannot be regarded as the aberration of a single, presidential Democrat such as McGovern. If President Nixon were to mount a crusade against the size of government, the Democratic-controlled House and Senate would have to say yes or no. If they said yes, the Republican Administration would get the lion's share of the credit for obvious reasons. If they said no, and the President convinces the country that the answer must be yes, then the Republican party will have a realigning issue whose effects will be felt at all levels in 1976 and at some in 1974. For this is an issue that has to do not only with the presidency, but with the entire Congress and entire Democratic party as well.

That the President is considering moving in this direction is clear from an interview he gave to the *Washington Star-News* two days before the election. Here are just a few of his comments: "This country has enough on its plate in the way of huge new spending programs, social programs throwing dollars at problems.... Reforms using money more effectively will be the mark of this ad-

Contributors

Jeffrey Bell, former Capitol Hill Director of the American Conservative Union, also contributes to *National Review*, *Human Events*, and *The Nation*....Eric Brodin is a free-lance writer residing in Switzerland and an alien contributor to *The Alternative*....David Brudnoy is an associate professor of history at Merrimack College, national affairs commentator on WGBH-TV in Boston, and an associate of *The Alternative*....Ronald F. Docksai is National Chairman of Young Americans for Freedom....Haven Bradford Gow is a college student whose articles have appeared in *Intercollegiate Review*, *Modern Age*, *University Bookman*, and elsewhere....Peter Hughes is a Ph.D candidate and Woodrow Wilson Fellow at Catholic University....W. Wesley MacDonald teaches at the University of Maryland and is a contributor to *The Alternative*.

Alan Reynolds is associate editor of *National Review* and a frequent contributor to *The Alternative*....Roger Rosenblatt is an assistant professor of English and the director of the Expository Writing Program at Harvard University....William Schneider, Jr., formerly of the Hudson Institute, is presently on the staff of Senator James Buckley....C. Bascom Slemp is the chief Washington correspondent of *The Alternative*....Tom Taggert is a seasoned Washington hand and owner of one of the most famous hotels in southern Indiana....Paul H. Weaver is an assistant professor of government at Harvard University and the associate editor of *The Public Interest*.

ministration.... I honestly believe that government in Washington is too big and too expensive.... We can do the job better with fewer people.... I am convinced that the total tax burden of the American people — federal, state, and local — has reached the breaking point. It can go no higher.... It is our responsibility to find a way to reform our government institutions so that this new spirit of independence, self-reliance, and pride that I sense in the American people can be nurtured."

If these are the dominant themes of his second administration, realignment under President Nixon may not be quite as dead as political Washington thinks it is.

Alan Reynolds:

Deficits, Controls, and Unflation

"The policy proposals that are being made in the U.S. today are all a reflection of the ideas of the late 1930s."

— Milton Friedman

"Faced with the choice between changing one's mind and proving that there is no need to do so, almost everyone gets busy on the proof."

— John Kenneth Galbraith

We aren't all Keynesians now. Even fewer of us are Galbraithians. Yet, we have drifted into policies based on these quaint old notions, even though the underlying theories are contradicted by simple logic and complicated research.

To spend more than it collects in taxes, the government must create or borrow money. The relevant distinction between a Keynesian and a monetarist is that the Keynesian believes that deficits *per se* will increase output or prices, while the monetarist says that any expansionary effect arises mainly from the fact that new currency or checking accounts are usually created to pay for the government's new bonds. To separate "fiscal" from monetary effects, let's assume that the money removed from Mr. A's wallet — to pay for the bonds — is exactly matched by the number of dollars put into Mr. B's hands by the government's deficit spending: i.e., the deficits does not give rise to any increase in the money supply. On the face of it, one would surely expect this transfer of dollars from Mr. A to Mr. B to have no effect whatsoever on total spending. Nor is it obvious why the composition of spending — the division between consumption, investment, and government — should affect the total of income in the short run.

The true-blue Keynesian, however, could reply that Mr. A was sitting on a specific type of "liquidity trap" full of "idle money." Since Mr. A could care less whether he sits on money or bonds (because he expects the capital loss from falling bond prices to exactly offset the bonds' yield in interest), the government can unload bundles of bonds on the poor fellow and get those "speculative" holdings of "idle money" rolling again. One way of generalizing this argument is to say that velocity is higher in government bureaucracies than in the private sector.[1]

In reality, the government can't continually peddle billions of dollars worth of bonds, year after year, without bidding-up interest rates. Even if there were some evidence for a "liquidity trap" — which there isn't[2] — the amount of idle dollars would not be infinite. In the absence of money-creation, there is a limited amount of funds available for stocks, bonds, mortgages, and the like. To get people to part with more money, the government has to sweeten the deal with higher interest rates (which makes other potential claimants on the limited amount of loanable funds follow suit).

Our hypothetical stubborn Keynesian is thus forced to conclude that this rise in interest rates, resulting from financing the deficit, will not reduce private spending, because investors and consumers will want to borrow just as much no matter what the cost (don't ask where they will get the money, after the government takes its slice). By taking this heroic leap of faith, the Keynesian can also dismiss the effect of the money supply on output or prices, because Keynesians steadfastly refuse to acknowledge that the supply of money will affect spending except by affecting interest rates. Specifically, Keynesians do not even mention that an excess of real cash balances over the amount normally held might just possibly affect markets for goods and labor, as well as for bonds.

Indeed, an up-dated "Keynesian" argument says the rise of interest rates, induced by government bond sales, will not only *not* reduce private spending, but actually *increase* it. This is because at higher interest rates it becomes more costly for people to hold money (which earns no interest), so they hold less of it and the rate of spending (velocity) increases. The demand for money *is* somewhat responsive to interest rates, but the effect on velocity of the comparatively minor interest rate variations associated with financing deficits is far outweighed by other effects: (1) the government's borrowing crowds out a roughly equivalent amount of private borrowing; (2) if reduced money holdings did raise price or output, people would begin holding more money again, because it would take more dollars to satisfy all the reasons why money is held; and (3) higher interest rates reduce demand for investment funds, state and local government borrowing, and mortgages.

The obvious conclusion is that the expansionary impact of deficits mainly depends on whether or not they are financed with new money: i.e., that "fiscal policy" is usually a roundabout type of monetary policy. Specifically, if new government bonds were all sold to the public (rather than to the Federal Reserve or commercial banks), there would be no increase in the money supply, and any expansionary effect would rest on the unlikely effect of deficit spending in increasing velocity. For deficits to be financed by sales of bonds to the public, however, interest rates on government bonds would have to be much more attractive than has been possible under law and Federal Reserve policy (Professor Gordon Tullock has calculated that the real value of federal debt held by the American public has actually *fallen* from $252 billion in 1948 to $152 billion in 1971—expressed in 1963 dollars). Conversely, if we want to increase the money supply, this can be done without deficits by simply buying outstanding bonds with new money. In 1966 we had a deficit *without* monetary expansion and the result was a mild recession; in 1968 we reduced the deficit with a tax surcharge, but the money supply continued to rise — and so did the rate of inflation.

So much for the theory. A large body of research clearly indicates that:

(1) All significant inflations and deflations have been preceded by sudden changes in the rate of growth of the money supply;[3]

(2) The money supply can be controlled within sufficiently narrow limits if Federal Reserve open market sales and purchases of bonds are directed toward affecting the supply of currency and bank reserves;[4]

(3) The factors that cause velocity to vary are more predictable than the (non-tautological) relationship between investment and income;[5]

(4) Unpredicatable lagged responses and the absence of omniscience make *ad hoc* variations in fiscal and monetary policy counter-productive;[6]

(5) Various interest rates move up and down together, and do affect several types of spending.[7]

TOWARD MEANINGFUL REFORM:

It follows that Congress should pass a law instructing the Federal Reserve to keep increases in the money supply within, say, a zero-to-four percent range. Better still, replace the Fed's Open Market Committee with a computer programmed to achieve such monetary stability.

Perhaps even more important, the Federal Reserve must be expressly prohibited from its recurring habit of trying to keep interest rates low by making new money plentiful. This policy causes price-inflation and eventually *raises* nominal interest rates, because lenders demand higher rates to compensate for the expected erosion in purchasing power of the dollars with which they will be repaid. The idea that high interest rates are a sign of "tight money" is the opposite of the truth: High interest rates usually contain an inflation premium, made necessary by an earlier increase in the supply of money.