Reagan's "Two Santas" Trick

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The headline over at Politico on Nov. 16 says it all: White House's hopes for a lame-duck debt ceiling deal are fading fast.

It's no accident or coincidence that this *never once happened* during the presidencies of Ronald Reagan, George Bush, George W. Bush, or Donald Trump. Or that it *did* happen during the presidencies of Bill Clinton and Barack Obama…and, now, Joe Biden.

You could even call it a conspiracy: there's an amazing backstory — with a unique name— here.

Republicans, with this declaration, have formally rolled out Reagan's "Two Santas" trick.

They're now proclaiming step one: holding the US economy hostage by refusing to raise the debt ceiling. But step two, using it to destroy the Democratic Party (and the nation, if they don't get their way), is the most insidious part.

If they succeed, it could crash the entire US economy and throw us (and perhaps much of the rest of the world) into something far worse than a recession.

And, sure enough, Mitch McConnell verified step one when he said there would be "zero" Republican votes to raise the debt ceiling.

Treasury Secretary Janet Yellen responded by telling *The Wall Street Journal* that if the Republicans force a shutdown of the US government like they did to Obama in 2011, "We would emerge from this crisis a permanently weaker nation."

But the GOP is adamant: they have their strategy, worked out and fine-tuned by Ronald Reagan and followed by Republicans in Congress ever since, and they're sticking to it.

This destruction of the US economy during a Democratic presidency, they believe, will help their prospects heading into the presidential election of 2024.

This is part of an old GOP strategy — dating back to the Reagan Revolution — which worked well for them during both the Clinton and Obama presidencies. It even has a name: Two Santa Clauses.

To defeat it this time, Democrats must get ahead of it and publicly call it out (as they failed to do in the past).

Here's how it works, laid it out in simple summary:

To set up its foundation, the Two Santas strategy dictates, when *Republicans* control the White House they must spend money like a drunken Santa and cut taxes on the rich, all to intentionally run up the US debt as far and as fast as possible.

They started this during the Reagan presidency and tripled down on it during the presidencies of Bush and Trump.

Massive tax cuts and uncontrolled spending during Republican presidencies produced three results: they *stimulated the economy* with a sort of sugar high, making people think that the GOP can produce a good economy; they *raised the national debt* dramatically (it's at $31 trillion today, 100% of which tracks back to Reagan's, Bush Jr.'s, and Trump's massive tax cuts and Bush's two illegal off-the-books wars); and they made people think that *Republicans are the "tax-cut Santa Clauses."*

Then comes Part Two of the one-two punch: when a *Democrat* is in the White House, Republicans must scream about the national debt as loudly and frantically as possible, freaking out about how "our children will have to pay for it!" and "we have to cut spending to solve the crisis!"

The "debt crisis," that is, that they themselves created with their massive tax cuts and wild spending.

Do whatever it takes: shut down the government, crash the stock market, and damage US credibility around the world if necessary.

This will force the Democrats in power to cut their own social safety net programs and even the crown jewel of the New Deal, Social Security, thus *shooting their welfare-of-the-American-people Santa Claus* right in the face.

And, sure enough, here we are again with a Democrat in the White House.

Following the script, Republicans are again squealing about the national debt and saying they will refuse to raise the debt ceiling, possibly crashing the US economy.

And, once again, the media is preparing to cover it as a "Debt Crisis!" rather than what it really is: a cynical political and media strategy devised by Republicans in the 70s, fine-tuned in the 80s and 90s, and since then rolled out every time a Democrat is in the White House.

Politically, it's a brilliant strategy that was hatched by a fellow most people have never heard of: Jude Wanniski.

Republican strategist Wanniski first proposed his Two Santa Clauses strategy in *The Wall Street Journal* in 1974, after Richard Nixon resigned in disgrace and the future of the Republican Party was so dim that books and articles were widely suggesting the GOP was about to go the way of the Whigs.

There was genuine despair across the GOP, particularly when Jerry Ford couldn't even beat an unknown peanut farmer from rural Georgia for the presidency.

Wanniski argued back then that Republicans weren't losing so many elections just because of Nixon's corruption, but mostly because the Democrats had been viewed since the New Deal of the 1930s as the "Santa Claus party."

On the other hand, the GOP, he said, was widely seen as the "party of Scrooge" because they publicly opposed everything from Social Security and Medicare to unemployment insurance and food stamps.

The Democrats, he noted, had gotten to play Santa Claus for decades when they passed out Social Security and unemployment checks — both programs of Franklin Delano Roosevelts's Democratic New Deal — as well as their "big government" projects like roads, bridges, schools, and highways that gave a healthy union paycheck to workers and made our country shine.

Even worse, Democrats kept raising taxes on businesses and rich people to pay for all that "free stuff" — and Democrats' 91% top tax rates on the morbidly rich didn't have any negative effect at all on working people (wages were steadily going up until the Reagan Revolution, in fact).

It all added, Wanniski theorized, to the public perception that the Democrats were the *true* party of Santa Claus, using taxes on the rich to fund programs for the poor and the working class.

Americans loved the Democrats back then. And every time Republicans railed against these programs, they lost elections.

Therefore, Wanniski concluded, the GOP had to become a Santa Claus party, too. But because Republicans hated the idea of helping out working people, they had to come up with a new way to convince average voters that the GOP, too, had the Santa spirit. But what?

"Tax cuts!" said Wanniski.

To make this work, the Republicans would first have to turn the classical world of economics — which had operated on a simple demand-driven equation for seven thousand years — on its head. (Everybody then understood that demand — "working-class wages" — drove economies because working people spent most of the money they earned in the marketplace, producing "demand" for factory-output goods and services.)

To lay the ground for Two Santa Clauses, in 1974 Wanniski invented a new phrase — "Supply-Side Economics" — and said the reason economies grew and became robust wasn't because people had good union jobs and thus enough money to buy things but, instead, because business made things available for sale, thus tantalizing people to part with their money.

The more products (supply) there were in the stores, he said, the faster the economy would grow. And the more money we gave rich people and their corporations (via tax cuts) the more stuff (supply) they'd generously produce for us to think about buying.

At a glance, this 1981 move by the Reagan Republicans to cut taxes while increasing spending seems irrational, cynical and counterproductive. It certainly defies classic understandings of economics. But when you consider Jude Wanniski's playbook, it makes complete sense.

To help, Arthur Laffer took that equation a step further with the famous "Laffer Curve" napkin scribble he shared with Reagan over lunch. Not only was supply-side a rational concept, Laffer suggested, but as taxes went down, revenue to the government would go up!

Neither concept made any sense — and time has proven both to be colossal idiocies — but if Americans would buy into it all they offered the Republican Party a way out of the wilderness.

Ronald Reagan was the first national Republican politician to fully embrace the Two Santa Clauses strategy.

He told the American people straight-out that if he could cut taxes on rich people and businesses, those "job creators" (then a newly-invented Republican phrase) would use their extra money to "build new factories" so all that new stuff "supplying" the economy would produce faster economic growth.

George HW Bush — like most Republicans in 1980 who hadn't read Wanniski's piece in The Wall Street Journal — was initially horrified. Ronald Reagan was proposing "Voodoo Economics," said Bush in the primary campaign, and Wanniski's supply-side and Laffer's tax-cut theories would throw the nation into debt while producing nothing to benefit average American voters.

But Wanniski had done his homework, selling "Voodoo" supply-side economics to the wealthy elders and influencers of the Republican Party.

Democrats, Wanniski told the GOP, had been "Santa Clauses" since 1933 by giving people things. From union jobs to food stamps, new schools to Social Security, the American people loved the "toys" and "free stuff" the Democratic Santas brought every year, as well as the growing economy the increasing union wages and social programs produced in middle-class hands.

But Republicans could stimulate the economy by throwing trillions at defense contractors and other fat-cat donor industries, Jude's theory went: spending could actually *increase* without negative repercussions and that money would trickle down to workers from billionaires and corporate CEOs buying new yachts and building new factories and mansions.

Plus, Republicans could be *double* Santa Clauses by cutting people's taxes!

For working people the tax cuts would only be a small token — a few hundred dollars a year at the most — but Republicans would heavily market them to the media and in political advertising. And the tax cuts for the rich, which weren't to be discussed in public, would amount to hundreds of billions or even trillions of dollars, part of which would be recycled back to the GOP as campaign contributions from the rich beneficiaries of those tax cuts.

There was no way, Wanniski said, that the Democrats could ever win again.

They'd be forced into the role of Santa-killers if they acted responsibly by raising taxes, or, even better, they'd be machine-gunning Santa by cutting spending on their own social programs.

Either one would lose them elections, and if Republicans executed the strategy right they could force Democrats to do both!

Reagan took the federal budget deficit from *under* a trillion dollars when they were elected in 1980 to almost three trillion by 1988, and back then a dollar could buy far more than it buys today.

They embraced Wanniski's theory with such gusto that Presidents Reagan and George HW Bush ran up more debt in 12 years than every president in history up until that time, from George Washington to Jimmy Carter, *combined*.

Surely this would both "starve the beast" of the American government *and* force the Democrats to make the politically suicidal move of becoming deficit hawks. And that's just how it turned out.

Bill Clinton, the first Democrat they blindsided with Two Santas, had run on an FDR-like platform of a "New Covenant" with the American people that would strengthen the institutions of the New Deal, re-empower labor, and institute a national single-payer health care system.

A few weeks before his inauguration, however, Wanniski-insiders Alan Greenspan, Larry Sommers, and Goldman Sachs co-chairman Robert Rubin famously sat Clinton down and told him the facts of life: Reagan and Bush had run up such a huge deficit that he was going to have to both raise taxes *and* cut the size of government programs for the working class and poor.

Clinton took their advice to heart, raised taxes, balanced the budget, and cut numerous social programs. He declared an "end to welfare as we know it" and, in his second inaugural address, an "end to the era of big government."

Clinton shot Santa Claus, and the result was an explosion of Republican wins across the country as GOP politicians campaigned on a "Republican Santa" platform of supply-side tax cuts and pork-rich spending increases.

Democrats had controlled the House of Representatives in almost every single year since the Republican Great Depression of the 1930s, but with Newt Gingrich rigorously enforcing Wanniski's Two Santa Clauses strategy, they finally took it over in the middle of Clinton's presidency.

State after state turned red, and the Republican Party rose to take over, in less than a decade, every single lever of power in the federal government, from the Supreme Court to the White House.

Looking at the wreckage of the Democratic Party all around Clinton in 1999, Wanniski wrote a gloating memo that said, in part:

"We of course should be indebted to Art Laffer for all time for his Curve… But as the primary political theoretician of the supply-side camp, I began arguing for the 'Two Santa Claus Theory' in 1974. If the Democrats are going to play Santa Claus by promoting more spending, the Republicans can never beat them by promoting less spending. They have to promise tax cuts…"

Ed Crane, then-president of the Koch-funded Libertarian CATO Institute, noted in a memo that year:

"When Jack Kemp, Newt Gingrich, Vin Weber, Connie Mack and the rest discovered Jude Wanniski and Art Laffer, they thought they'd died and gone to heaven. In supply-side economics they found a philosophy that gave them a free pass out of the debate over the proper role of government. … That's why you rarely, if ever, heard Kemp or Gingrich call for spending cuts, much less the elimination of programs and departments."

Two Santa Clauses had fully seized the GOP mainstream.

Never again would Republicans worry about the debt or deficit when they were in office; and they knew well how to scream hysterically about it and hook in the economically naïve media as soon as Democrats again took power.

When Jude Wanniski died, George Gilder celebrated the Reagan/Bush adoption of his Two Santas "Voodoo Economics" scheme — then still considered irrational by mainstream economists — in a *Wall Street Journal* eulogy:

"Unbound by zero-sum economics, Jude forged the golden gift of a profound and passionate argument that the establishments of the mold must finally give way to the powers of the mind. … He audaciously defied all the Buffetteers of the trade gap, the moldy figs of the Phillips Curve, the chic traders in money and principle, even the stultifying pillows of the Nobel Prize."

Republicans got what they wanted from Wanniski's work.

They held power for 40 years, transferred over $50 trillion from working-class families into the money bins of the top 1%, and cut organized labor's representation in the workplace from around a third of workers when Reagan came into office to around 6% of the non-governmental workforce today.

Think back to Ronald Reagan, who more than tripled the US debt from a mere $800 billion to $2.6 trillion in his eight years. That spending produced a massive stimulus to the economy and the biggest non-wartime increase in America's national debt in all of our history.

There was nary a peep from Republicans about that 218% increase in our debt; they were just fine with it and to this day claim Reagan presided over a "great" economy.

When five rightwingers on the Supreme Court gave the White House to George W. Bush in 2000, he reverted to Wanniski's "Two Santa" strategy and again nearly *doubled* the national debt, adding over a trillion in borrowed money to pay for his tax cut for billionaires, and tossing in two unfunded wars for good measure, which also added at least (long term) another $5 trillion.

There was not a peep about that debt from any high-profile in-the-know Republicans; in fact, Dick Cheney famously said, amplifying Wanniski's strategy: "Reagan proved deficits don't matter. We won the midterms. This is our due."

Bush and Cheney's tax cuts for the rich raised the debt by 86% to over $10 trillion (and additional trillions in war debt that weren't put on the books until Obama entered office, so it looked like it was his).

Then came Democratic President Barack Obama, and suddenly the GOP was hysterical about the debt again. So much so that they convinced a sitting Democratic president to propose a cut to Social Security (the "chained CPI"). Obama nearly shot the Democrats' biggest Santa Claus, just like Wanniski predicted until outrage from the Democratic base stopped him.

Next, Donald Trump raised our national debt by almost $7 trillion, but the GOP raised the debt ceiling without a peep every year for the first three years of his administration, and then suspended it altogether for 2020 (so, if Biden won, *he'd* have to justify raising the debt ceiling for *2 years' worth of deficits*, making it even more politically painful).

And now Republicans are getting ready to use the debt ceiling debate to drop their Two Santas bomb right onto President Joe Biden's head. After all, it worked against Clinton and Obama and the media never caught on. Why wouldn't they use it again?

And if the GOP's debt-ceiling default crashes the economy, all the better: Republicans can just blame Biden!

Americans deserve to know how we've been manipulated, and by whom, for the past 42 years.

Hopefully, Democratic politicians and our media will, finally, call the GOP out on Wanniski's and Reagan's Two Santa Clauses scam.