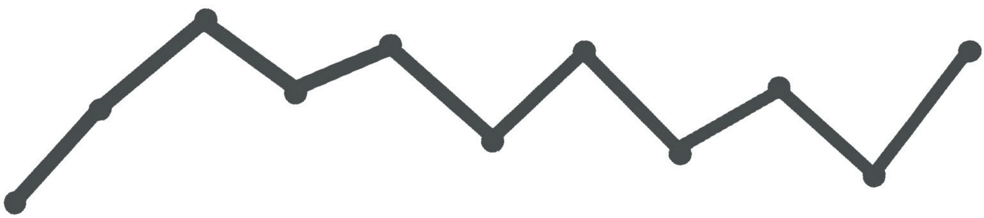
THE POLITICAL ECONOMY OF REAGANOMICS

A CRITIQUE



Stephen Rousseas

ROUTLEDGE

THE POLITICAL ECONOMY OF REAGANOMICS

THE POLITICAL ECONOMY OF REAGANOMICS

A CRITIQUE

Stephen Rousseas

Routledge
Taylor & Francis Group
LONDON AND NEW YORK

First published 1982 by M. E. Sharpe, Inc.

Published 2019 by Routledge
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN
52 Vanderbilt Avenue, New York, NY 10017

Routledge is an imprint of the Taylor & Francis Group, an informa business

Library of Congress Cataloging in Publication Data

Rousseas, Stephen William.
The political economy of Reagonomics.

1. Supply-side economics. I. Title.
HB241.R68 1982 338.973 82-10659

ISBN 13: 978-0-87332-239-3 (pbk)
ISBN 13: 978-0-87332-227-0 (hbk)

to

ANARGE

who

would have

agreed

Contents

Preface

By the time of its first anniversary, the Reagan administration was embattled. The idea that the budget would be balanced by 1984 had been abandoned. The President, contrary to his own convictions and campaign promise, now calls deficits "a necessary evil." Like all presidents before him, he has been forced by circumstances to give up on the idea of a balanced budget. If that were all there was to it, there would be no need to write a book about it.

What is different this time is that the present administration is engaged in a major counterrevolution. It is seeking to undo the last half-century of social progress on the ground that the big government it entailed has itself become the cause of all our ills—inflation, unemployment, a public debt that is forever rising, high interest rates, and low growth. In seeking solutions to these problems, the President embraced a new school of thought—*supply-side economics.* It is the purpose of this book to examine critically the ideology behind this "new" economics.

As will be argued in *The Political Economy of Reaganomics*, supply-side economics is not a coherent system of thought—nor is it "new." The two main branches are what I call the classical and the monetarist supply-side schools. They are not in agreement. Indeed, there are fundamental differences between them, which have now surfaced into an ugly struggle for the President's attention. In addition to these two schools, there are the orthodox, Old Guard budget-balancers who disagree with the supply-siders on the importance of the deficit and the wisdom of the supply-side tax cut that was steamrollered through Congress in 1981. Budget-balancers are to be found in both houses of Congress, in the Federal Reserve under Paul Volcker, in the Office of Management and Budget under David Stockman, and in an informal group of presidential councillors consisting of former high officials of the Eisenhower, Nixon, and Ford administrations.

What has emerged is a three-way struggle that has yet to be resolved. I have tried to provide the reader with the theoretical background against which the drama is being played out. A sophisticated command of economic theory is not required. The book is designed for the generally informed reader, and technical matters, when they could not be avoided, have been kept as simple as possible. Chapter 3, which can be skipped, gives a summary view of the main "demand-side" theories which supply-side economics is supposed to have supplanted. Though it is not absolutely necessary in order to understand the other chapters of the book, a quick reading might prove helpful.

The book is, essentially, a study in political economy, in the sense that economics cannot be separated from politics. I do not regard economics as an independent science; it is permeated at all levels with ideology, the "scientific" pretentiousness of economic theory notwithstanding.

As a Post Keynesian, I have been very critical of supply-side economics and I have tried to be systematic in my criticisms. Whether they will convince the reader is another matter, but convincing or not I think they are important for understanding the counterrevolution that has been launched under the banner of Ronald Reagan and the perils it poses for the country.

* * * *

I would like to acknowledge the permission of the *Journal of Post Keynesian Economics* and *Challenge* magazine to incorporate two of my earlier articles on supply-side economics. I am also grateful to the University of the South for sponsoring a conference I was asked to participate in last October. In particular I am indebted to Alfred Eichner of Rutgers University for having prodded me to do the book and then having given generously of his time in reading the manuscript, and to my colleagues at Vassar College, Marc Jarsulic and David Merriell, the latter having read the manuscript as a noneconomist. Above all, I want to thank Sidney Weintraub of the University of Pennsylvania for having gotten me started on the subject last summer and for his many kindnesses to me.

I would also like to thank a former student of mine at Vassar College, Miss Anne Rendall, who was instrumental in providing me with an enormous amount of valuable material from the Treasury Department. Finally, my thanks to Mrs.Judy Thorson, who uncomplainingly typed several versions of the manuscript under difficult conditions.

Stephen Rousseas
Poughkeepsie, N.Y.
May 1982

THE POLITICAL ECONOMY OF REAGANOMICS

Our revenue laws have operated in many ways to the unfair advantage of the few, and they have done little to prevent an unjust concentration of wealth and power.

— Franklin D. Roosevelt

The taxing power of the government must not be used to regulate the economy or bring about social change.

— Ronald Reagan

CHAPTER 1

The Crisis of Faith

I

Prevailing social theories are convenient constructions of reality which seek, more often than not, to justify whatever is by forcing the "facts" of social existence into preconceived ideological boxes. They are, when things are going well, celebrations of the status quo, and the main spokesmen for establishment theory serve as the legitimators of power and those who wield it. Immutable "laws" are propounded which "prove," on scientific grounds, that the system is just, and being just, predestined to go on forever. When things are not going too well, the theoretical guardians of the conventional wisdom tend to scold and to attribute the malfunctioning of the system to violations of sacred maxims.

Such was the state of affairs, a little over fifty years ago, with the onset of the Great Depression. It was by far the greatest challenge American capitalism had to face since the Civil War. On a black Thursday the stock market crash wiped out the paper wealth of the newly rich, and massive bank failures cleaned out the life savings of many of the not-so-rich. Real output fell by one-third, factories closed, and unemployment (as officially measured) soared to 25 percent of the labor force. According to the conventional theory of the time, it could not and should not have happened.

In its purest and most ideal form, capitalism was seen to operate within a system of competitive markets. Markets were simply the institutional arrangements within which buyers and sellers con-