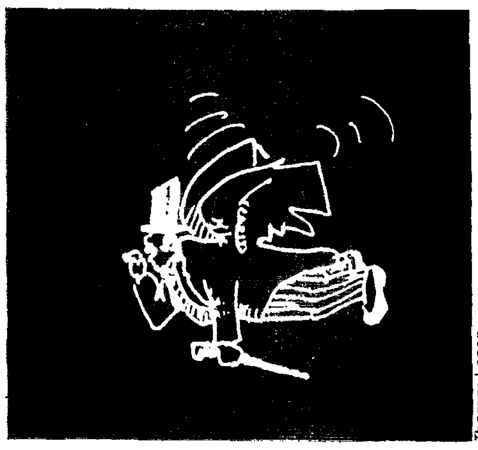
IN THESE TIMES

U.S. business isn't buying it


Thomas Lenon

By David Moberg

WHILE HE WAS ON THE campaign trail, and even for the first few months in office, it was easy for Ronald Reagan to turn on the actor's smile, bob his head, wink at the audience and—with a bit of "aw shucks" humility and a drumroll of American can-do patriotic fervor—convince a fair number of people that he could simultaneously drastically cut taxes, massively increase military spending, balance the budget, protect vital social programs (while, of course, only trimming waste) and bring down both inflation and unemployment.

He won over a lot of skeptics, including his vice president, who had earlier labeled Reagan's plans "voodoo economics." Increasingly, however, even Reagan's big business buddies are beginning to share some of George Bush's original assessment.

Not that they are openly turning on Reagan: How could they attack a president who just gave them tens of billions in tax relief and promises to curb virtually all controls on corporate activity from polluting the air to gobbling up other businesses in a boom of corporate concentration?

But when it comes to putting down their dollars, major investors and corporate executives demonstrate that they simply do not believe that the president's plan is working. One dramatic signal came late in August when the stock market abruptly plummeted to the lowest level in over a year.

"I would say that everyone is finally coming to the realization that everything he's doing is really a joke," one West Coast stockbroker said. "The whole supply-side theory doesn't work if you've got tight money. As facts come more to light and the reality of the whole situation sinks in, people in control of most of the money, in the institutions, have been saying it's a sham."

Contradictory effects.

Reagan managed to scotch-tape together a number of classic conservative economic solutions—budget cuts, tax cuts for the rich, regulation rollbacks and tight money—and tack on the "supply-side" label, economist Gar Alperovitz says: "The program was always absurd economically, but brilliant politically."

Now some contradictions in the plan are emerging. As economists of many stripes point out, the supposed stimulus to expansion from the tax cuts conflicts with the restrictive effects of high interest rates that discourage borrowing for expansion.

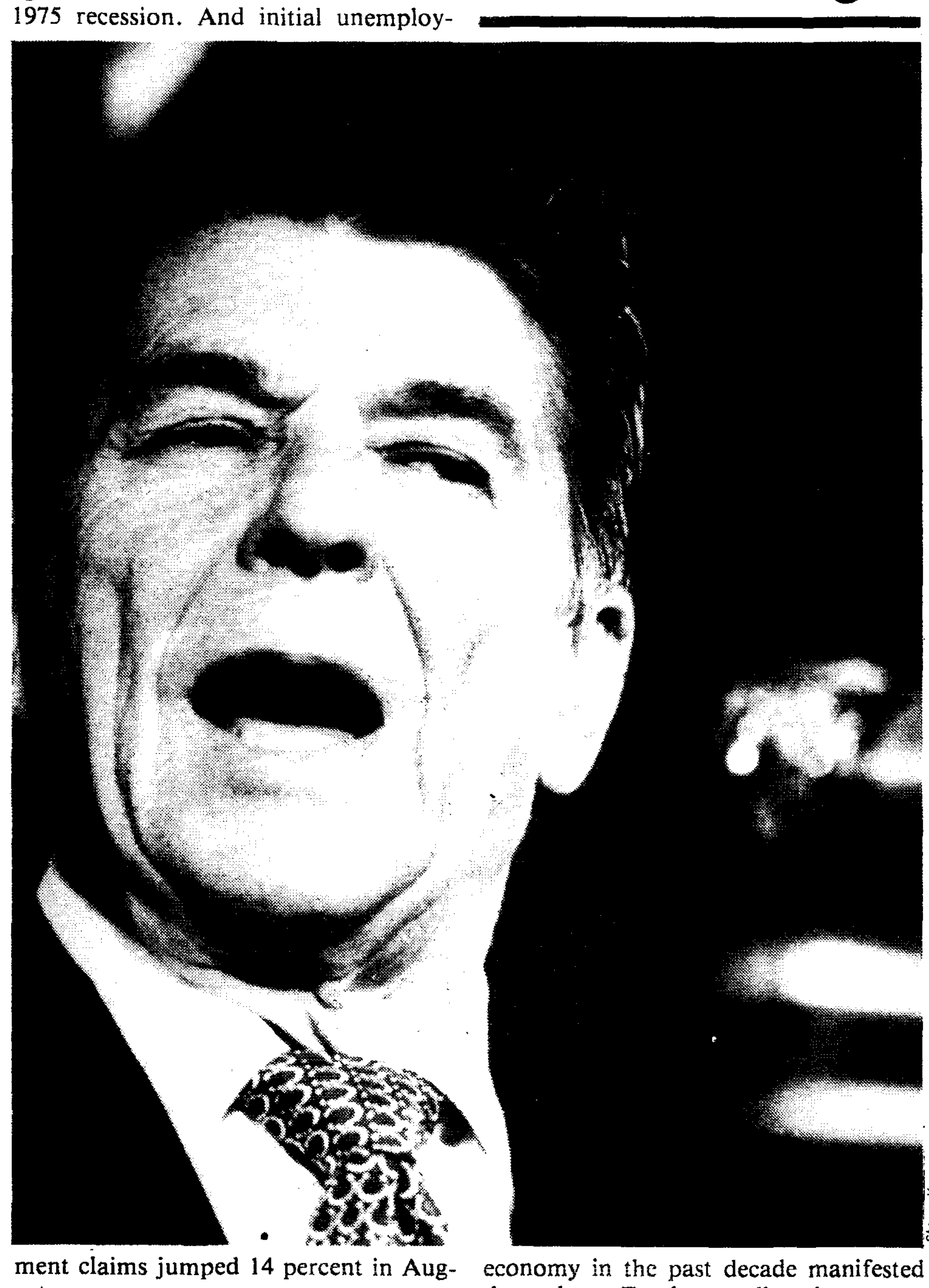
"The government has to make a decision," argues Brad Yoneoka, an associate of Drexel Burnham Lambert, the Wall Street stockbrokers. "If it wants the expansionary route, it should have a large deficit and a Federal Reserve policy that is substantially easier. If it wants to bring down inflation, it should try to bring down the deficit. This way you don't get either; you hurt both. You'll push up inflation and not pull the economy out of this recession. Institutional investors would rather see a coherent and consistent policy—expansionary or restrictive. Inconsistency introduces uncertainty into capital markets and makes it more difficult to make a capital decision."

Even if the high interest rates did not make Treasury notes and money market funds more attractive than stocks, there are other influences undermining real capital investment. Industrial facilities are only being utilized at slightly less than 80 percent of capacity, discouraging new investment. Since last January the general indicators of economic activity, including corporate profits, have been slipping, and many forecasters expect recovery to be slow in coming, possibly with a muddled recession well into next year. (The American economy continues to perform unevenly among regions and industries, so that some sections of the country are flourishing while others wallow in misery.) Small businesses in particular are hurting: business failures are up 42 percent from a year ago to a level above that of the severe 1975 recession. And initial unemployment claims jumped 14 percent in August.

High interest rates only partly reflect the continuing determination of the Federal Reserve to restrain monetary growth. Inflationary expectations also have an influence. Though budget deficits in themselves contribute only slightly to inflation, big investors see such deficits as a sign that government policy is out of control. Psychology—investor confidence and the hunches that guide corporate planners—plays an important role. Just as Reagan's policies have not yet inspired business to make grand plans for capital expansion in most cases, they have also not convinced investors that inflation will greatly diminish, despite the lucky breaks that the Reagan administration is getting on some fronts, particularly with stabilized prices for oil. (Nevertheless, the Consumer Price Index rose in July to an annual rate of 15 percent.) Many economists are convinced not only that the Federal Reserve has less influence over interest rates and inflation than it had in the past but also that the Fed has diminished ability even to control the supply of money.

So although high interest rates intended to stem inflation paradoxically fuel inflation, it is also true that high interest rates themselves are an expression of underlying inflationary tendencies built into the economy. Inflation is the form in which some basic problems of the U.S. economy in the past decade manifested themselves. Fundamentally, there were greater demands being placed on the economy than it was able to deliver, partly because of the investment strategies of many corporations that bled basic industries and avoided significant innovation. The stagflation of the '70s was also a reflection of the growth in corporate control over prices.

If—as Reagan's advisors avidly profess—the market is always right, then the administration must be wrong.


Steve Kagan

Reagan, like his predecessors, confronts this new stagflation paradox. Until the causes of inflation are dealt with more directly, there is little hope for a dramatic drop in interest rates. But without a drop in interest rates, economic revival, a key to containing inflation, cannot occur.

"The only thing that's going to rally the stock market is compelling news in the battle on inflation," Harvey Rosenblum, vice president of the Chicago Federal Reserve Bank says. "Until inflation goes down, it's going to be hard for interest rates to go down."

The stock market drop was politically very serious for Reagan for two reasons. First, his administration avidly professes the belief that the market is always right. If so, the administration must be wrong. Second, supply-side theory and Reagan policies have always relied heavily on altering capitalist psychology. "From that standpoint, the Reagan policies have failed," economist Robert Lekachman says. "They were supposed to have their greatest effect on expectations among investors, but support [for Reagan policies] is higher now among the general public than among investors."

Winning back the investors.

To win back the investors, the Reagan administration is now trying to figure out how it can reach its original goal of a mere $42.5 billion deficit for the next fiscal year, especially when nearly all forecasts but their own put the deficit $20 billion or more above that. The military has been targeted, but with actual cutlays for fiscal year 1982 only about $4.4 billion above Carter's already high proposals, the Reagan budget cutters will have a hard time reducing the deficit, even if they can affect future deficits some by trimming back authorizations for coming years.

It will be difficult for the Reagan team to reverse completely their commitment to expand military spending by 7 percent a year above inflation—a figure pulled out of the hat to "beat" the Soviet Union in spending but with no direct relation to real needs. But some cutbacks in the military will make it politically easier to come back to Congress with proposals for even more drastic non-military budget cuts, including deep slashes into Social Security, the one piece of "raw meat" big enough to satisfy the lions of Wall Street demanding a balanced budget. By locking the country into the tax cut, the Reagan administration has created the fiscal crisis that can be used as the battering ram against remaining human resource programs.

Cutting back Social Security, however, would directly dampen consumer demand and discourage business expansion. Also, keeping the military funded at growing levels "loots the means of production," as Columbia professor Seymour Melman argues, by diverting capital away from basic industries and economic infrastructure, thus exacerbating the causes of American economic decline and stagflation.

Can Reagan escape the bind he's in? An easy Federal Reserve monetary policy would give a boost to the deeply depressed housing industry and a bit to auto, as well as provide short-term stimulus, but inflationary expectations would begin to drive interest rates back up. Or Reagan could quickly negotiate an arms limitation agreement with the Soviet Union and then cut the military budget while still claiming superiority. But there is little indication that anyone with influence in the administration is in favor of either easy money or serious arms limitation talks.

More likely, Alperovitz suggests, "he'll just muddle along and get deeper into the soup," and then begin to find scapegoats. The likely victim is labor, as Reagan has demonstrated in his handling of the air controllers' strike and his proposed 4.8 percent pay increase for federal civilian employees (compared to 14.3 percent for military employees), despite guidelines under the 1970 pay comparability act that call for a 15.1 percent increase.

Will Reagan's presumptive opposition among the Democrats begin to do anything? "The interesting fight over the next year," Alperovitz says, "will be between Democrats and moderates who don't want to come up with new ideas but just wait for disillusionment with Reagan to win and those who see this as an opportunity to come up with something new." ■

IN SHORT

NIPSCO nixes nuke

There's a big hole in the Indiana Dunes, about 30 miles south of Chicago. The product of 11 years' work and a $205-million investment, the hole was meant to house the Northern Indiana Public Service Company's Bailly nuclear power plant. But late in August, NIPSCO chairman Edmund A. Schroer announced that the mounting costs and repeated delays of the Bailly project were "simply not bearable." The utility's initial cost estimate for the plant in 1970, $187 million, had risen ten-fold to $1.8 billion. And the target date for completion had been extended from 1976 to 1989.

The scrapping of Bailly followed years of protests from steelworkers (more than 20 percent of the country's steel is produced within 30 miles of the plant), environmentalists, public officials in Indiana and Illinois, local citizens and the Chicago-based Business and Professional People for the Public Interest. Also among Bailly's critics was the Nuclear Regulatory Commission, which had objected to the way NIPSCO's engineers planned to solve the problem of building a nuclear power plant on a foundation of sand.

Personnel fission

The NRC has proposed fining Illinois' Commonwealth Edison utility $80,000 for two incidents in which workers were exposed to excessive radiation earlier this year. Both cases involved tradesmen doing maintenance work at the Dresden nuclear reactor 50 miles southwest of Chicago. In the more severe case, a 40-year-old millwright was exposed to about 22 rems of radiation on March 5. (The NRC's limit for workers at nuclear plants is 3 rems every three months.) While an Edison spokesman blamed the incident on equipment failure, some of the risks of exposure at Dresden derive from a deep rift between unionized radiation control technicians (RCTs) and the non-union engineers in management, known as health physicists (HPs) (*In These Times*, April 15). Last year, an NRC report cited union-management tensions as the major problem with the plant's health physics program, concluding that "instead of mutually beneficial cooperation between plant-wise RCTs and professionally trained HPs to build a strong, aggressive and up-to-date program, there exists mutual antagonism and lack of respect."

Death and taxes

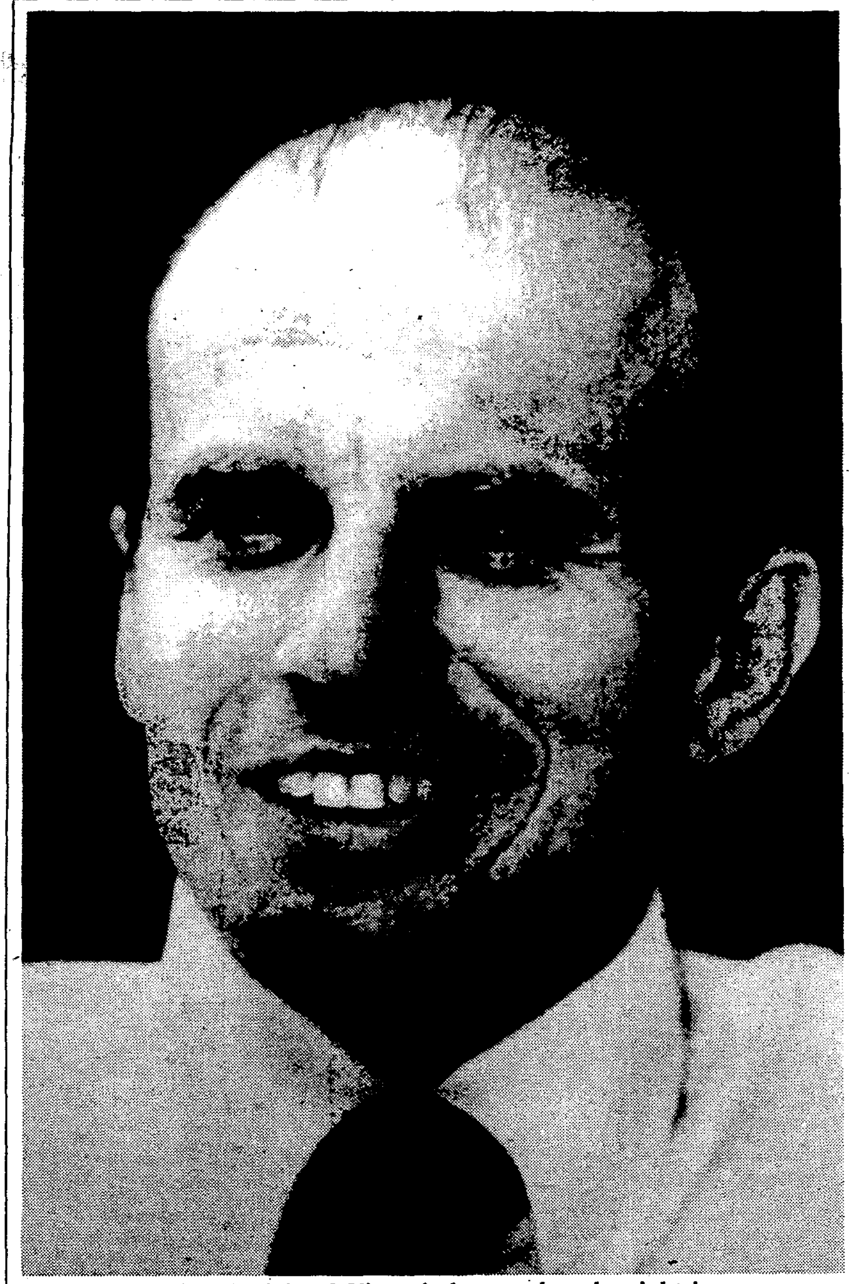
The Zodiac News Service reports that the Reagan administration hopes to give Americans a rosier picture about their chances for survival following a nuclear war. For that purpose, the federal Emergency Management Agency is planning to supplement its three-year-old movie on surviving a nuclear attack with a second, more upbeat film. The 1978 flick, *Protection in the Nuclear Age* (*not* about contraception in the suburbs, as some might have supposed), warned of the effects of radiation and recommended the establishment of fallout shelters and the stockpiling of light-colored clothing as protective measures. The new film, tentatively titled *Crisis Relocation Planning*, stresses the safe evacuation of stricken areas following major disasters, atomic war among them. "It's a more positive picture," insisted the agency's producer, Michael Smith. "It wants to say that all is not gloom and doom."

What the Internal Revenue Service wants to say is that it will begin collecting taxes again immediately after a nuclear war, rendering tax shelters practically useless. The *Philadelphia Inquirer* reports that the IRS recently notified its employees of specific contingency plans "in the event of a national emergency, including a nuclear attack."

The organic view

Writing in the Sept. 24 issue of the *New York Review of Books*, Lewis Thomas, author of *The Lives of a Cell* and *The Medusa and the Snail*, puts the nuclear-survival matter in some perspective: "Words like disaster and catastrophe are too frivolous for the events that would inevitably follow a war with thermonuclear weapons. Damage is not the real term; the language has no word for it. Some people might survive, but survival is itself the wrong word. As to the thought processes of the people in high perches of government who believe that they can hide themselves underground somewhere (they probably can) and emerge later on to take over again the running of society (they cannot, in the death of society), or, more ludicrous, the underground headquarters already installed in the mountains for corporate executives who plan to come deranged out of their tunnels to reorganize the telephone lines or see to the oil business, these people cannot have thought at all."

—Josh Kornbluth



Direct-mail wizard Richard Viguerie boasts that the right is years ahead of liberals in its use of sophisticated communication techniques.

UAW wants a piece of the new communications pie

The UAW is tired of just reacting to media insults to and ignorance of labor issues. The initiatives it is taking, moreover, may have effects far beyond organized labor.

"We're always fighting these rearguard actions," said David Mitchell of the UAW's communications department after one frustrating Washington battle over deregulation of communications. "We want to be involved in setting the terms for the next media debate."

So the UAW has been paying close attention—just like the delegates told it to in a 1980 convention resolution—to developments in communications technology. Accordingly, the UAW, along with such corporate applicants as Sears and NBC, applied to the FCC for multiple low-power TV licenses. The low-power stations could become video newsletters for community groups and unions just as much as they could become Sears video catalogs. (The FCC is rumored to be deciding, finally, how to issue those licenses; swamped with applications, it has delayed taking action for months.)

Among the hottest developments in communications is direct-broadcast satellite service. Satellites, of course, aren't new; but small and cheap (say, $150) satellite-signal receivers for your own rooftop, only a few years away, would change their use. The FCC is now taking applications for licenses of satellites intended for direct broadcast.

The UAW wants such satellites to be common carriers—transmitters of information, selling space for reasonable rates on a first-come, first-serve basis. Further, it wants some of the satellite's capacity reserved for nonprofit use. And that's what the union told the FCC in a proposal filed by the Media Access Project. "The public's right to transmit and receive information should not be made to depend solely on middlemen, particularly in a system characterized by the absence of localism and institutionalized community contacts," the proposal states.

The UAW also talked with one of the corporations filing for a license, the DBS Corporation. That company then proposed that it would allot 10 percent of its capacity for nonprofit corporations to use, at a charge of 15 percent less than the going rate. Since direct broadcast service promises to be dramatically cheaper than current broadcasting, this puts access to national TV time within the range of many nonprofit groups.

Why is the UAW spending time and energy on projects that reach so far beyond the immediate interests of union members? Ray Majerus, UAW secretary-treasurer, thinks long-range planning is crucial. He hasn't forgotten the day after Reagan was elected. Richard Viguerie, the right's direct-mail wizard, and Terry Dolan of the National Conservative Political Action Committee boasted that progressives were eight to 10 years behind them in sophisticated use of communications.

"We've got to catch up and pass them," Majerus said.

A key strategy is involvement in policy-making, said Mitchell. "If we don't participate in creating a regulatory framework, we'll be frozen out again."

—Pat Aufderheide

This little piggie went to market

NAIROBI, KENYA—While third world countries talked about fuel wood and muscle power, the U.S. approached the mid-August UN Conference on New and Renewable Sources of Energy (UNCNRSE) in Nairobi with the message that the solution to the world energy crisis lies in "the long-term reliance on open energy markets in which ingenuity and enterprise can flourish."

These songs of praise for the free-market system—sung by President Reagan's "special representative" Stanton Anderson—raised a howl of protest from some Americans attending UNCNRSE, including two congressional advisors to the U.S. delegation and representatives of several non-governmental organizations (NGOs).

Rep. Richard Ottinger (D-N.Y.), who along with Rep. Berkley Bedell (D-Iowa) served as an advisor to the U.S. delegation, blasted the American position on free-enterprise solutions. "The marketplace," said Ottinger, "cannot be relied on entirely to make the right decisions to meet immediate global needs for the transition to a new energy future."

While the proposed plan of action debated by the official delegates in Nairobi called for increased bilateral and multilateral assistance for energy projects, the U.S. stood alone in its insistence that a "debilitating collection of subsidized and uneconomic new and renewable energy projects" would not solve the energy problems of developing countries.

Meeting in a separate forum, the U.S. NGO Caucus—self-described as a "broad coalition of business, energy and environmental, research and religious organizations"—maintained that while market forces may be aiding energy development in some areas, "more than half the world's people...live outside the market economy."

In addition, the Reagan administration's "rhetorical support for free enterprise" is fraught with inconsistencies, the U.S. NGO Caucus charged, pointing to "cuts in small business and export promotion programs [that] are pulling the rug out from under more than 5,000 renewable energy businesses in the U.S." Such adherence to free-market principles, the NGO Caucus pointed out, is contradicted by increased subsidies for nuclear power and synfuels, "technologies now being rejected by the market." As a result, "selective reliance on the market" stacks the deck against nascent renewable energy technologies that must compete against heavily subsidized conventional energy sources.

In keeping with the Reagan administration's pro-corporate energy policies, the U.S. delegation opposed the recommendation of a UNCNRSE ad hoc group that all countries in a position to do so should increase bilateral and multilateral aid. The U.S. also opposed the creation of an energy affiliate within the World Bank, as well as any new international bureaucracies that might be created to finance new energy projects in developing countries. Such proposals, presumably, would cast a shadow on the sunny business climate the Reagan administration would apparently like to promote.

—Margot E. Beutler