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AN ECONOMIC REPORT CARD FOR REAGAN

by Clair Brown

"Are you better-off today than you were four years ago?" President Reagan asked in his campaign speech in 1980. During this election year, Reagan's record for the past four years is clear: his economic policies have hurt workers and low-income people and helped owners of capital and high-income people.

A Poor Report Card—When Reagan entered office, the unemployment rate was around 7%. Together with the Federal Reserve's tight monetary policy, he instigated a deep recession in order to bring down inflation, which averaged around 10% in 1981. The result was that in December 1982, the unemployment rate hit 10.7%, the highest rate since the Depression. Although unemployment has declined since then, it is now only between 7% and 7.5%—about the same as when he first took office, and the recovery seems to be coming to an end. During Reagan's entire administration, the unemployment rate has been **higher** than when he took office. His claims that he has reduced unemployment are true only because economic policies under his administration **caused unemployment rates to climb so high**. In fact, he has only reduced the unemployment that he caused in the first place. One might call it "tight shoe economics," where we praise the person who removes our tight shoes, while forgetting he caused our initial misery by putting them on us.

The recession did reduce inflation, so that consumer prices increased only 3.2% in 1983 and around 4% so far in 1984. However, the real prime interest rate (the prime rate adjusted for inflation) has remained around 8% during Reagan's term, largely because of budget deficits of almost $200 billion per year. These historically high real interest rates will ensure that the current recovery is short-lived. In addition, they have contributed to an over-valuation of our dollar, which has caused a major deterioration of our international trade position.

President Reagan has also changed the environment of collective bargaining in a way that dramatically increases the power of management and reduces the power of labor. He has also altered the income distribution by shifting income from low-income people to high-income people, and consequently increased the number of people in poverty by almost 20%.

Overall, then, President Reagan receives the following marks for his economic program, which he termed supply-side economics:

1. Reducing unemployment . . . . F
2. Reducing inequality . . . . F
3. Ensuring fair collective bargaining. . . . . F
4. Providing basic needs for everyone . . . . F
5. Maintaining international trade position . . . . . F
6. Reducing inflation. . . . . A
7. Increasing income and power for the ruling elite. . . . . A

The Myth of Supply-Side Economics—Supposedly by reducing taxes and non-military government spending, workers would have more incentive to increase their labor supply and capitalists would have more incentive to increase their investments. However, labor supply and investments have shown to respond to opportunity more than monetary incentives; that is, people take jobs when decent jobs are available, and capitalists make productive investments when they can sell their output. Therefore, full employment would have been much more successful than tax incentives in increasing the labor supply and investment.

The Reality: More Income and Power for the Top—Besides generating a recession to reduce inflation, Reagan attacked the underlying structures of the economy in three fundamental ways:

1. His busting of PATCO was the first in a series of steps to set up an anti-union climate.
2. He restructured the tax system so the income tax is much less progressive than it used to be and corporate taxes, which used to provide an important tax source, are almost non-existent.
3. He drastically cut the income support programs of the Federal budget and built up military programs.

After shifting the balance of power to capitalists, Reagan instigated a recovery based on increased military spending, which rose around 40%, and was paid for through massive Federal budget deficits.

The View from the Bottom—According to the Congressional Budget Office, households with yearly incomes under $10,000 (the bottom fifth) will lose $23 billion between 1983 and 1985 under Reagan's tax and benefit changes. Meanwhile, households with yearly incomes over $80,000 (the top one percent) will gain $35 billion between 1983 and 1985. This represents an average loss of $1100 for the low-income family and an average gain of $24,000 for the high-income family.

Over the fiscal years 1982-85, programs for low-income people were cut by $57 billion. The poverty rate rose above 15% in 1983—the highest rate of poverty since the Great Society Programs began in 1965. The poverty population has increased by six million people since 1980, and children represent the majority of this increase. Today, one-fourth of all children under age six live in poverty, and over one-half of black and Hispanic children under age six live in poverty.

Federal Budget Deficits—While cutting social programs and taxes, Reagan also greatly increased military spending. Since government spending exceeded taxes, the Federal budget deficit grew and so did real interest rates. High interest rates benefit higher income people, who have large amounts of assets. The high interest rates mean that the government must pay large sums of money to finance the Federal budget deficit. In fact, increases in interest payments since Reagan took office amount to more than all of the cuts in health, education, welfare and social service programs. Reagan did not end up cutting the budget. Instead, he reduced funding for income support for the poor, for nutrition, education, public service jobs, job training, and many other social programs, and he paid that money in interest on new debt to people with higher incomes. In the end, the higher income people benefitted from large tax reductions, which in turn generated large Federal budget deficits and high real interest rates, which also benefitted higher income people.

New Threats to Solidarity—Labor is always hurt by recession since unemployment reduces workers' bargaining power. In the recent recession, some unions have been forced to grant concessions (or take-backs) in negotiations. Even more damaging, has been the spread of "two-tier" agreements, where new workers receive lower pay and benefits than current workers. Over time, this type of system will divide the workers and erode the union's power, which is based on collective strength. Even if a union has been able to weather the last four years without concessions or two-tiers, their stronger position is threatened by the resentments and divisions within labor that grow with inequality. Finally, in the event that a union has been able to improve its contract during a recession, capitalists use the higher labor costs to justify plant relocation or shutdown.

Although different unions have suffered in various ways--union busting, concessions, two tiers, layoffs, shutdowns—the main point is that labor as a whole has suffered greatly under the Reagan administration. Taking care of your own contract is not enough in today's economy. The political struggle over wages, the level of unemployment, and government taxation and spending policies will determine all workers' standard of living and working conditions over time. The Principle of Solidarity still holds: In the long run, the labor movement will be only as strong as its weakest members. Labor needs to help reverse Reagan's anti-labor, pro-rich legacy by rebuilding institutions that ensure low unemployment, a healthy economy, greater equality, fair wages, and decent working conditions. Although Walter Mondale may not receive A's in the first five subjects on the report care, he certainly would not receive F's.

-- *Clair Brown*

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