ECONOMICS, LABOR & BUSINESS

Mortgaged Future?

"What Hath Conservative Economics Wrought?" by Gerald Epstein, in *Challenge* (Aug. 1986), 80 Business Park Dr., Armonk, N.Y. 10504.

The news about the U.S. economy, as Reagan administration spokesmen observe, has been pretty good. The inflation rate, which hit 13.3 percent during the Carter years, averaged only 1.8 percent during 1986. Economic expansion continues. Polls find Americans confident of the future.

But Epstein, an economist at the New School for Social Research, is unimpressed. A broad look at the Reagan record, he says, shows that while the administration "promised a miracle, it delivered a debacle."

As outlined in its 1981 *Program for Economic Recovery*, the White House sought, with help from Federal Reserve chairman Paul Volcker, to enhance business profits, make U.S. exports more competitive, and prompt growth—while keeping inflation at bay. How? High interest rates would attract foreign investment and trigger a recession, forcing down inflation, wages, and consumer demand. Meanwhile, tax cuts would spark investment and spur industry to supply more goods—another remedy for inflation. The plan, says Epstein, aimed for an "economic equivalent of the Grenada invasion"—a quick victory over inflation coupled with "carrot and stick" business incentives.

But the plan failed. The victory over inflation was real, but Pyrrhic. Between 1980 and 1985, the average real growth rate hit a postwar low (2.1 percent); the U.S. trade deficit soared from $1.9 billion in 1980 to $117.7 billion in 1985. And, in 1982, unemployment reached a postwar high: 10.7 percent. Reagan's decision to fight inflation instead of unemployment, contends Epstein, cost the nation from $800 billion to $2 trillion between 1980 and 1984, in terms of the lost output of idled workers.

The 1981 tax cuts did not spark investment as much as was hoped, and high interest rates discouraged business borrowing; instead of expanding, firms went on a merger and acquisition binge. Then the "strong dollar" tactic backfired: U.S. wages grew more slowly than did those of the nation's trading partners, but America's business costs *increased* faster than did its competitors' in 1983 and 1984. The overvalued dollar ended up eroding U.S. gains in overseas markets.

Epstein believes that a policy aimed at lowering unemployment would have tamped down inflation successfully by increasing the supply of goods and services. The Reagan quick fix not only failed, but produced deficits that are "mortgaging our future."

How Bossing Began

"What Do Bosses Really Do?" by David S. Landes, in *The Journal of Economic History* (Sept. 1986), 3718 Locust Walk, Univ. of Pa., Philadelphia, Pa. 19104-6297.

Are bosses necessary?

Not according to Harvard economist Stephen Marglin. In a widely noted 1974 essay, "What Do Bosses Do?", he argued that capitalist employers do little more than subjugate workers, with a strategy once used by "imperial powers" to rule colonies: "divide and conquer."

With the rise of division of labor in 18th-century factories, bosses were needed, as free-market economist Adam Smith outlined in *The Wealth of Nations* (1776), to streamline production. Indeed, worker specialization became a central feature of the streamlining process: By 1830, Swiss clockmakers divided watch assembly into 50 steps, utilizing nearly 150 laborers to craft a single timepiece. But what the history of high-volume manufacturing shows, according to Marglin, a Marxist, is not a quest for efficiency, but the lengths to which employers will go to turn hired hands into what Karl Marx called "crippled monstrosities."

Landes, a Harvard historian, retorts that history shows nothing of the sort. Factories, he says, did not emerge because owners sought to conquer employees; rather, they appeared when big machines were devised to "overcome the cost advantage" of cottage industry and "put-out" production. Owners, too, did not just coordinate work; they bought materials and sold finished products (thus *creating* profit) and advanced technology. The powered "water frame," Richard Arkwright's 1768 invention for making tough warp yarn, revolutionized textile manufacturing—but only after mill owners adapted it for assembly lines.

Bosses were essential here: "No one else was in a position to look upstream and downstream, as well as to competitors on either side."

As for "crippled" employees, Landes cites an 1806 House of Commons study of England's wool industry: "Not infrequently," it reported, "men rise from low beginnings, if not to excessive wealth . . . [then] to a situation of comfort and independence."

In fact, entrepreneur Josiah Wedgwood (1730–95) trained so many specialists for his innovative pottery firm that he had to create managers—"a new profession," notes Landes, some of whom "became employers in their turn." When "workers learn that they can do without the capitalist, it is because they have become capitalists themselves."

Today, hierarchy—bosses—and technology are as vital to large socialist enterprises as to capitalist ones. "As every good economist knows," says Landes, "there is no such thing as a free utopia."

Defending the IMF

"The IMF under Fire" by Jahangir Amuzegar, in *Foreign Policy* (Fall 1986), 11 Dupont Circle N.W., Washington, D.C. 20036.

Third World debt, changing exchange rates, yawning trade gaps. The International Monetary Fund (IMF) has much to deal with. During 1980–84 alone, the Washington-based Fund's officials ran 94 "stabilization" programs in 64 Third World nations—all with money woes.

What concerns Amuzegar, a former IMF executive director, is another problem: rising criticism of the Fund, from many quarters.

U.S. liberals protest that the IMF "bails out big multinational banks." Conservatives dislike its economic meddling, and its aid to anti-Western regimes. Foes on the Left say that its "help" deepens poverty and keeps poor nations in "imperialism's grip."