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"Beyond Monetarism: Finding the Road to Stable Money."

Basic Books, 10 East 53rd St., New York, N.Y. 10022. 270 pp. $16.95.
Author: Marc A. Miles

In August 1971, President Nixon shut the U.S. gold window, declaring that Washington would no longer redeem foreigners' dollars for gold. Two years later, Washington pulled out of the fixed international exchange rate system established under the 1946 Bretton Woods Agreement. In October 1979, Federal Reserve Board Chairman Paul Volcker announced that the board would adopt "monetarist" policy prescriptions.

All of these events were landmarks on the road to disaster, argues Miles, a Rutgers economist and self-described "supply-sider."

Today's inflation rate, finally cut to between four and five percent after a deep recession, is still more than double the average rate during the 1946–71 period. And not since the mid-19th century have *interest* rates approached the levels of recent years.

Miles blames monetarism most of all for the instability of the dollar in recent years. Monetarists, led by the University of Chicago's Milton Friedman, hold that the key to fighting inflation and promoting economic growth is a slow, steady increase in the nation's money supply. But Miles sees a number of flaws in this view.

The Federal Reserve Board, he argues, does not really control the money supply. Within the United States, its powers are substantial, but the dollar is a global currency. European banks with dollars in their vaults escape the Fed's regulation, and they can "create" new dollars at will simply by making loans denominated in U.S. currency.

How large is this "Eurodollar" market? In December 1982, Americans had $350 billion in their checking accounts; Eurodollar deposits overseas totaled $291 billion.

Miles also asserts that while monetarists have "burned up a lot of computer circuits" trying to confirm their theory, there is no real proof that changes in the money supply affect inflation, interest rates, and economic growth. It is far more likely that money supply fluctuations are the *effect*, rather than the cause, of changes in these indices.

By focusing on the quantity of money, Miles continues, the Federal Reserve Board has ignored the most important question Americans ask about the dollar: How much is it going to be worth in the future?

The Federal Reserve, he argues, should concern itself with prices, not the money supply. It could do that by buying and selling designated commodities to ensure that their prices stay constant.

Many of his supply-side colleagues favor a gold commodity standard, but Miles favors a "market basket" of commodity futures (e.g., wheat, potatoes) and, to stabilize interest rates, long-term U.S. Treasury bonds. The Federal Reserve would set a target rate of, say, five percent interest on the bonds. If rates rose higher, it would sell bonds; if they dropped, it would buy bonds. No effort would be made to control the money supply.

Fixed international exchange rates might be necessary to restore America's economic health, Miles adds, but the first step is to concentrate on achieving price stability.

"The Reagan Record."

Urban Institute, 2100 M St. N.W., Washington, D.C. 20037. 415 pp. $12.95.
Editors: John L. Palmer and Isabel V. Sawhill

During his first four years in office, Ronald Reagan's chief accomplishment was to change the terms of debate on U.S. social policy. He shifted public (and congressional) attention from new domestic programs to self-help and budget cutting. The results, according to this Urban Institute study, are sometimes surprising.

Hardest hit were the working poor, who benefited little from Reagan's tax cuts, suffered most in the 1981–82 recession, and were further afflicted by curbs on social programs.

In 1982, a total of 34.4 million Americans were living in poverty, as officially defined. Under Reagan, "the rich got richer as the poor got poorer," say the authors. However, "the safety net is still largely intact for the nonworking poor," notably single mothers and the elderly. Moreover, most of those able-bodied Americans (some 500,000 recipients of welfare checks and almost one million potential food stamp recipients) who were deprived of benefits by Congress continue to work instead of reapplying for government assistance.

Reagan's tax policy had similar results. It did not favor poorer Americans by conferring immediate benefits, but spurred the work ethic that Reagan believes is their best long-term hope. Tax cuts gave the poorest families a reduction of only three dollars a year, while bestowing $2,429 on families in the wealthiest 20 percent of U.S. society. But the tax reductions encouraged greater work effort generally, by offering incentives to people to toil longer hours or to seek higher and more challenging positions since the "net financial rewards" for work had increased.

Coupled with higher Pentagon budgets, however, the tax concessions produced "unprecedented peacetime [budget] deficits." The national debt incurred over the past four years will nearly equal the sum of all previous debt in U.S. history. The 1981 cumulative national debt of less than $800 billion will swell to more than $1.5 trillion in 1985.

The authors observe that Reagan blames former presidents for the high inflation (12.4 percent in 1980) and unemployment (seven percent) that he faced when he took office. In fact, they say, these difficulties were largely the product of the international oil crises of the 1970s and, thus, beyond the control of the United States.

Reagan's White House also claims successes that were not of its own doing. For the 8.6 point drop in inflation between 1980 and 1983, the authors say, Reagan must share credit with "good luck and the Federal Reserve [Board]." Half the decline came at the cost of a severe "tight money" recession that produced 11 percent jobless rates in 1981–82. Another third came from favorable shifts in food, energy, and import prices.

Many of Reagan's more dramatic reform moves were blocked or blunted by Congress or the courts, note the authors. The Food Stamp Program, slated by the White House for 51.7 percent cuts over four years, was sliced only 13.8 percent by Congress. Indeed, most of the Reagan policies (e.g., changing federal enforcement of civil rights) have been mandated not by Congress but by executive action, meaning that future presidents can easily reverse many steps taken during the "Reagan Revolution."