ternational agreements and agencies.

Domesticists take the opposite view. They believe that "the world economy is only as good as the national economies that compose it," Nau says. This is essentially the Reagan administration's view.

Domesticists blame the world economic turmoil of the 1970s chiefly on the Western industrial nations' pursuit of bad *domestic* policies, especially the big U.S. budget deficits beginning during the late 1960s. Washington "exported" the resulting high U.S. inflation to the rest of the world. They insist that U.S. economic power was only barely diminished during the 1970s—it accounted for 36 percent of the gross world product in 1955, 30 percent in 1970—and remains substantial.

At economic summit conferences (most recently, in London last year), the Reagan administration has not sought glamorous new international accords (e.g., establishing a second Bretton Woods agreement on exchange rates) but has concentrated on forging a consensus behind such modest national goals as trimming government outlays and battling inflation. Yet, believing that U.S. influence at the bargaining table was surpassed by its brute economic power, the domesticists reasoned that if the U.S. economy "could be revitalized and steered back to price stability, market incentives, and freer trade, the world economy might be induced to follow."

Nau maintains that this approach has worked. Worldwide, inflation is down, and long-depressed economies are beginning to bloom anew. Next, says Nau, Washington should try to capitalize on its successful trade talks with Israel and the Association of Southeast Asian Nations to stir up international opinion in favor of freer trade. But above all, he says, the Reagan White House must live up to its own creed. If federal budget deficits are not reduced, he warns, the United States will drag the world into another era of high inflation and slow growth.

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Vindication for Supply-Siders?

"How Supply-Side Triumphed" by Alan Reynolds, in *Challenge* (Nov.-Dec. 1984), 80 Business Park Dr., Armonk, N.Y. 10504.

Supply-side economics is one thing on which nearly everybody in political Washington seems to see eye-to-eye: They love to hate it. Reynolds, an economic consultant, maintains that he and his supply-side colleagues have been strung up by a kangaroo court.

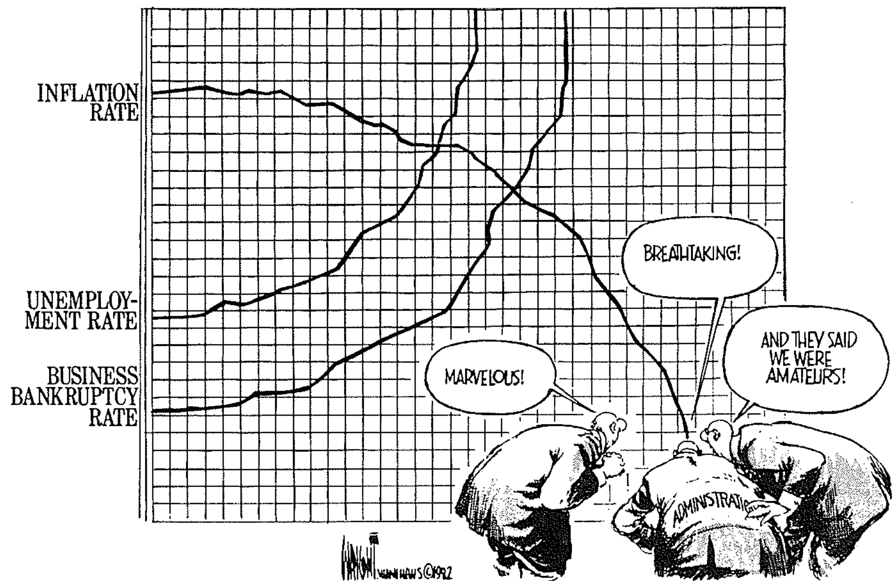
The supply-siders are taking the rap for convincing the Reagan administration to push ahead with its mammoth tax-cut program in 1981, thus creating today's massive federal budget deficits. But Reynolds argues that the administration got into trouble only because it did not go as far as the supply-siders had urged. It rejected their plan for a three-year, 30 percent cut in federal income taxes. Instead, it

backed a 25 percent cut, made the first phase a mere five percent reduction, and pushed back its effective date from January 1981 to October of that year. The result: The nation's economic recovery was delayed, and the "hangover" of slower economic growth shrank the tax base and created onerous deficits.

In fact, Reynolds continues, "bracket creep" and Social Security tax hikes actually pushed the *total* federal tax burden higher during 1981 and 1982. The U.S. economic comeback of 1983 coincided with the decline of Uncle Sam's take to 19.4 percent of the gross national product, the average rate of the 1970s.

But the biggest deviation from supply-side doctrine, Reynolds says, occurred in the domain of monetary policy. The supply-siders had called for relatively easy money, stable prices, and, eventually, a return to the gold standard for the nation's money supply. But the Federal Reserve Board, intent upon wringing inflation out of the economy, drove interest rates to near-record highs in 1981 and 1982. Despite the growing strength of U.S. currency in foreign exchange markets and other signs of increasing worldwide demand for dollars, it stifled money supply growth. It was the Federal Reserve's tight money policy more than anything else, in Reynolds's view, that caused the 1982 recession.

"Supply-siders have grown accustomed to being criticized for positions they never held," Reynolds writes. None of them ever claimed that an economic boom would result from the 1981 tax cuts, he main-



President Reagan's supply-side economists got the blame for creating the nation's severe economic recession in 1982.

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tains. Nor have they received credit for correct predictions. For example, the 1983 recovery, unlike others since World War II, was fueled by rising business investment rather than by consumer demand—just as promised by supply-side economists.

Reynolds is not particularly happy about today's big federal budget deficits, but he would rather see red ink than higher taxes. Indeed, ever the supply-sider, he favors even further tax cuts.

Japanese, Go Home!

"Japan Inc., U.S.A." by Robert B. Reich, in *The New Republic* (Nov. 26, 1984), P.O. Box 955, Farmingdale, N.Y. 11737-0001.

In increasing numbers these days, Japanese corporations are either opening factories on U.S. soil or entering into joint ventures with American firms. Nissan makes trucks in Tennessee, Mitsubishi sells its cars under the Chrysler label.

Strange as it may seem, American companies have welcomed the invasion. National Steel now works hand in hand with Nippon Kokan, Japan's second biggest steel-maker. National Semiconductor sells Hitachi computers. Last year, Florida's Houdaille Industries, a robotics firm, announced a joint venture with Japan's Okuma Machinery Works. The list goes on and on. In most cases, the U.S. firms do the research and development for the product, carry out the the final assembly of component parts, and handle the marketing and distribution. The Japanese handle the complex manufacturing process in between, where they have an advantage in quality and price over their American partners.

One result is that old distinctions between Japanese and U.S. goods are blurring. RCA puts its brand name on made-in-Japan articles; Hondas are made in Ohio.

An arrangement that provides American workers with jobs and U.S. consumers with inexpensive goods seems ideal. "Except for one thing," notes Reich, a Harvard public-policy analyst. As the Japanese take over more and more of the production process, "they develop the collective capacity to transform raw ideas quickly into world-class goods"—a skill that he fears American workers and managers are losing. Most of the final assembly jobs that Japanese manufacturers now consign to U.S. workers are relatively simple and likely to be largely eliminated by automation; research and development generates few jobs; domestic marketing and distribution are tasks that Americans would perform anyway. The net result, in Reich's view, is that the United States is getting the short end of the stick.

To overcome the high cost of the Made in U.S.A. label and to spur greater U.S. and Japanese corporate investment in complex production in America, Reich proposes new federal tax breaks and direct subsidies. Today, for example, corporations receive a 25 percent tax credit for research-and-development outlays, not a dime for employee training and production-line management improvements. Until we encourage businesses to put more money into such changes, Reich writes, we will continue to see "the fruits of our research . . . taking seed abroad."