Reaganomics discussed

By Max Haller

A Martinian observing the Reagan Administration's Council of Economic Advisers (CEA) recently suggested to CEA Director Professor Robert Solow, "You could only conclude that its effect was to transfer wealth from the wealthy to the power- ful." In this statement, it is implied that Solow intended to call attention to a problem in Reagan's efficiency based economic policies. "It all trembles in which there is an order of magnitude difference between the underassessed amount and the efficiency." Solow moderated a panel discussion on the contemporary American economy sponsored by the Graduate Economics Association at MIT last Thursday. David G. Rubey, Director of Research for the Institute for Common Sense public policy, also participated in the discussion.

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In his speech the Economics of Taxation, spoke on behalf of supply-side economics. He remained on the defensive throughout the speech with the pressures of the Reagan administration with the problem of supply-side theory. He also claimed the Reagan administration could not be defeated. "We are not the cause of the recession," he argued. "There is a large reduction in government spending, in "expenditure-based tax cuts" and a "slow and steady monetary growth" are the solutions to the current economic problems. He advocated a more equitable system of budget cuts than Reagan's. His ideas were reminiscent of Stockman's original goal of "cutting what claims rather than weak clients," as expressed in the Atlantic Monthly. Big business salaries would be cut before essential services.

Lawrence H. Summers, Assistant Professor of Economics, in contrast to Rubey's, defensive stance, attacked Reagan's policies, rolling off the federal firing line after another, with only brief pause for technical details. "Ask yourself if you are any better off today than you were last year. Ask yourself if the government's fiscal policy is making us any worse off... The economic series is to start into free fall... The Battle against inflation is not being won... Current policies do not work... We need to be no supply-side miracle... Supply-siders economics is completely irrelevant when output is determined by demand... The political process is being bought by this administration," he suggested, a very timely and practical policy coupled with an "aggressive incomes policy" as the only way to stop inflation.

Joy W. Forrester, Professor of Political Science, presents a book, "A Martian observing the economy," based on a long-standing public school of current economics: the supply-side theory. According to Forrester, a fifty-year-long cycle is responsible for major economic disruptions such as the Great Depression and our current economic crisis. "These long-term swings are the result of over-capitalization: when the economy is in period of industrial investment, in World War II, its momentum continues to the point of over-capitalization even after equilibrium has been reached, which Forrester estimated happened in 1960. As a result, our economy is currently in a "long way out of equilibrium." Viewed from this perspective, "we do see a change in the present administration..."

Forrester claimed that Reagan's challenge is to utilize "the immense resources that we have" while steering a course between "over-capitalization and deflation." He argued that this could be done by shifting people from "overcapitalized" government, service, and office jobs to "direct production operations." He asserted that shifting only ten percent of these people would double total productivity. According to Forrester, "you wouldn't miss one person out of ten MIT, or in any unproductive work." Berry Bowsman, Head of the Council on Wage and Price Controls under the Carter administration and currently from the Brookings Institution, stated the program with a point to economics and public policy. He asserted that the essential difference among economists is their model of how the economy works. He divided the field into four major schools of thought: the Keynesians, the American neo-classicists, European neo-classicists, and supply-side approach. He did not engage in any specific discussions about economic policy, but when pressed by a questioner that he "didn't disagree with almost anything Larry Summers said."