

INFORMATION TO USERS

This manuscript has been reproduced from the microfilm master. UMI films the text directly from the original or copy submitted. Thus, some thesis and dissertation copies are in typewriter face, while others may be from any type of computer printer.

The quality of this reproduction is dependent upon the quality of the copy submitted. Broken or indistinct print, colored or poor quality illustrations and photographs, print bleedthrough, substandard margins, and improper alignment can adversely affect reproduction.

In the unlikely event that the author did not send UMI a complete manuscript and there are missing pages, these will be noted. Also, if unauthorized copyright material had to be removed, a note will indicate the deletion.

Oversize materials (e.g., maps, drawings, charts) are reproduced by sectioning the original, beginning at the upper left-hand corner and continuing from left to right in equal sections with small overlaps. Each original is also photographed in one exposure and is included in reduced form at the back of the book.

Photographs included in the original manuscript have been reproduced xerographically in this copy. Higher quality 6" x 9" black and white photographic prints are available for any photographs or illustrations appearing in this copy for an additional charge. Contact UMI directly to order.

UMI

A Bell & Howell Information Company
300 North Zeeb Road, Ann Arbor MI 48106-1346 USA
313/761-4700 800/521-0600

Order Number 8812146

The state as macroeconomic manager in the United States

Pooley, Samuel Graham, Ph.D.

University of Hawaii, 1987

Copyright ©1987 by Pooley, Samuel Graham. All rights reserved.

U·M·I
300 N. Zeeb Rd.
Ann Arbor, MI 48106

NOTE TO USERS

Page(s) not included in the original manuscript are unavailable from the author or university. The manuscript was microfilmed as received.

67

UMI

THE STATE AS MACROECONOMIC MANAGER
IN THE UNITED STATES

A DISSERTATION SUBMITTED TO THE GRADUATE DIVISION OF
THE UNIVERSITY OF HAWAII IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF

DOCTOR OF PHILOSOPHY
IN POLITICAL SCIENCE

DECEMBER 1987

By

Samuel G. Pooley

Dissertation Committee:

Deane Neubauer, Chairperson
Hagen Koo
Neal Milner
Peter Manicas
Robert Stauffer

© Copyright by Samuel Graham Pooley 1987

All Rights Reserved

ACKNOWLEDGEMENTS

This dissertation marks a pleasant stage in my 20 year interest in the economic powers of government. Its intellectual focus was formed while I was in Birmingham, Great Britain and I acknowledge with great appreciation my political friends there. The dissertation itself arose during a period of political quiescence for me in Hawaii. Besides their formal duties on the dissertation committee, both Peter Manicas and Deane Neubauer played an important personal role in the development of this work. In a similarly personal vein, I appreciate the gigantic contributions of Beth Bismark and Linda Lucas Hudgins, who each in her own way, pushed and cajoled me to finish this work with both enthusiasm and advice. Finally, I should acknowledge my mother for her long interest in national politics and my father who has served as my conduit to reportage on macroeconomic policy for these many years. Thanks to you all.

ABSTRACT

This dissertation is about the making of macroeconomic policy in the United States. The development of the U.S. economy over the past 40 years has been dominated by large-scale, multinational and finance capital. Macroeconomic policy in the United States has played a key facilitating role for large-scale capital to the detriment of other sectors of capital and labor.

This dissertation examines the recent history of macroeconomic policy formation and implementation in the U.S. The work of Nicos Poulantzas on the nature of the capitalist state captures the theoretical elements of the relationship between capital and state and sets the theoretical foundation for this dissertation.

The dissertation concludes that a systematic shift in emphasis has occurred in the U.S. over the choice of macroeconomic policy choice and methods of decision making. Monetary policy has displaced fiscal policy because the former exists within the privileged world of financial institutions while the latter is prone to open public policy debate which hinders its implementation and exposes its goals. This shift in policy, from the mid-1970s to the mid-1980s, has been facilitated and encouraged by the shift in the U.S. economic structure.

TABLE OF CONTENTS

ACKNOWLEDGEMENTS	iii
ABSTRACT.....	iv
LIST OF TABLES	viii
LIST OF FIGURES	ix
CHAPTER 1. THE INDISCREET CHARM OF THE BOURGEOISIE:	
Introduction	1
Context	1
Objectives	4
Theoretical Framework	10
Methodology	15
Conclusion	17
CHAPTER 2. ROMANCING THE STATE	20
Introduction	20
Poulantzas and the State	26
Wright's Interpretation	31
Alternative Perspectives	37
Block	39
Giddens	45
Wallerstein	48
Synthesis	51
CHAPTER 3. THE GOOD, THE BAD, AND THE UGLY:	
The Development of Macroeconomic	
Policy	54
Introduction	54
The Business Cycle	60
Neo-classical Analysis	69
Politico-economic Models	74
Materialist Alternatives	77
Conclusion	89

CHAPTER 4.	CASABLANCA:	
	Kennedy's Initiation of Liberal	
	Macroeconomic Policy	91
	Introduction	91
	Chronology of Macroeconomic Policy Development	95
	Immediate post-World War II macroeconomy	97
	Kennedy's macroeconomic record	107
	Interpretations of Liberal Keynesianism	109
	Ex-post economic interpretation	109
	Economic adviser chronicles	114
	Economic history	128
	Structuralist Interpretations	130
	Conclusion	139
CHAPTER 5.	RAIDERS OF THE LOST ARC:	
	The Growth of the Influence of	
	Monetary Policy	142
	Introduction	142
	Johnson and the Federal Reserve	143
	Monetarism as Economics and Politics	157
	The Federal Reserve as a Policy Institution	161
CHAPTER 6.	GOLDFINGERS:	
	International aspects of	
	macroeconomic policy	171
	Introduction	171
	International Economic Crisis and the State	173
	International Capital	180
	International Macroeconomic Linkages	187
	International Economic Organization	196
CHAPTER 7.	DESPERATELY SEEKING RONALD REAGAN:	
	Ideological Components of	
	Macroeconomic Policy Formation	204
	Introduction	204
	The Economic Trajectory of the Reagan Period	208
	The Reagan Revolution	216
	Ideological Structures of	
	Macroeconomic Policy Formation	230
	Ideology as Material Practices	235

CHAPTER 8.	SWEPT AWAY ON A SEA OF RED INK:	
	Structural Macroeconomic	
	Policy Formation	240
	Introduction	240
	Political Powers	243
	Macroeconomic Structures and the State	250
	Macroeconomic Dynamics	259
	Macroeconomic Policy Processes	266
	Conclusion	277
CHAPTER 9.	BACK TO THE FUTURE:	
	The Future of the Liberal State	284
	Introduction	284
	Macroeconomic Policy Development in the U.S.	286
	Liberal Processes of Policy Formation	290
	Observations	300
	Conclusion	303
BIBLIOGRAPHY		307

LIST OF TABLES

Table		Page
4.1	Outstanding macroeconomic policy events, 1945-65	109
6.1	The international sector of advanced capitalist economies, 1965 & 1980	194
6.2	Exports as a share of the U.S. economy, 1955-85	194

LIST OF FIGURES

Figure		Page
2.1	Revised model of structural relationships -- Political practices	34
2.2	Revised model of combined determinations -- Economic and class structure	36
3.1	Macroeconomic linkages in the reproduction of the business cycle	63
4.1	Structural elements in post-World War II U.S. macroeconomy	96
4.2	U.S. growth and inflation	100
4.3	U.S. economic growth, 1955-65	106
4.4	Shares of GNP, 1951-86	135
4.5	U.S. government economic role, 1954-68	136
5.1	U.S. interest rates, 1961-85	146
5.2	U.S. inflation rate, 1961-85	146
5.3	U.S. Phillips curve, 1961-84	148
5.4	U.S. Gross National Product, 1960-70	149
5.5	U.S. Federal budget balance, 1961-85	150
5.6	U.S. money supply, 1961-85	151

Figure	Page
7.1	Reagan era growth, 1976-85210
7.2	Reagan era unemployment, 1976-85211
7.3	Reagan era inflation, 1976-85211
7.4	Reagan era government activity, 1976-85214
8.1	Sources of state economic powers246
8.2	State macroeconomic policy relations251
8.3	Requirements of capital reproduction258
8.4	Processes of macroeconomic policy formation267
8.5	Capital structure influences on public policy269
8.6	Labor and industrial relations in public policy determination272
9.1	Political economic determinants of social change298

CHAPTER 1

THE INDISCREET CHARM OF THE BOURGEOISIE: Introduction

Context

The state under advanced industrial capitalism crystalizes ruling conceptions of public policy and serves as the focal point for its implementation. If the impact of the business cycle on civil society were socially or politically negligible, then a laissez faire macroeconomic policy might be possible. Macroeconomics would be analytical but non-prescriptive. However, macroeconomic events have social impacts, with political repercussions, and government response to the business cycle has become a major determinant of state policy in the twentieth century.

A number of leading mainstream economists have concluded that the ability of advanced industrial capitalist countries to realize sufficient profits and to stave off the downturns of the business cycle through aggregate demand policy has been severely reduced in the past fifteen years. Marxist economists identify the 1974/75 recession as a watershed in post-World War II capitalist economic performance and

policy. From either perspective, problems in macroeconomic reproduction at the industrial center and their ramifications in the underdeveloped periphery are reflected in a wide number of public policy forums. These problems are displayed directly in partisan politics concerning the relationship of the Federal government to the private economy and in the potential of independent political action to affect that relationship.

The United States has faced both phases of a long macroeconomic wave since the conclusion of World War II, and two macroeconomic policy events bracket this period. A long wave of economic expansion existed from the immediate post-war period (1945) through the end of the 1960s, while a long wave of stagnation has affected the macroeconomy from 1968 through the present. The first significant macroeconomic policy event of the post-World War II period was the explicit use of deficit financing by the Kennedy administration in 1962 and 1963. The concluding event was the ideological attack on the welfare state by the Reagan administration, accompanied by continued deficit financing and an increased reliance by the capitalist state on monetary policy. Since there are a number of macroeconomic similarities in these two policy periods, they form an excellent basis for evaluating the formation of macroeconomic policy in different phases of the post-World War II long wave.

The election of Ronald Reagan and the ascendancy of supply-side economics signified a substantial challenge to the orthodoxies of

liberal Keynesian and conservative monetarist macroeconomic policy. Reagan's Presidency and the political climate it represents approach the heart of the social contract formed in this half century between labor (particularly through the union bureaucracy) and ascendant segments of the U.S. industrial sector. Reagan's ideological defense of capitalism and of the freedom of capital has been possible because there has been no significant social confrontation over the effects of the business cycle and macroeconomic policy in the 1980s. However Reagan's ideological position has not fundamentally challenged state control over macroeconomic policy. Grasping these developments requires an investigation of the relationship between the decision-making structures of the state and the structure of the post-World War II U.S. economy.

This dissertation introduces the theoretical problem of state and economy from a neo-Marxist "structuralist" perspective, i.e. a perspective emphasizing the enduring relationships of class and state power. The dissertation addresses the theory of the relationship of the state to the macroeconomy in the overall reproduction of the capitalist system, supports this theoretical design with examples from the recent macro political economy of the United States, extends the case to the economic relations of the United States with the major advanced capitalist countries and to the problems of capital realization and liquidity of underdeveloped economies, and concludes with considerations on likely developments within the ruling problematic of macroeconomic policy.

Objectives

The major objective of this dissertation is to provide new information on the nature of macroeconomic policy formation in the United States by using a structuralist approach to public policy analysis. A theory-based historical investigation is developed with an emphasis on the "logic" of capital and the existence of a "power center" within the state as an active policy management force.

Macroeconomic policy formation is opaque. Inspection of the economic policy sites of the state and in ruling class fractions of advanced capitalism is limited both by the club-like and by the technical aspects of macroeconomic policy formation, by the frequent informality and inconsistencies of the policy-making process, and by the privileges of wealth. Economic and political perspectives on macroeconomic policy usually assume that policy is undertaken for a greater social good (e.g. reduced unemployment, stable prices and economic growth) or that such policy is instrumentally motivated (e.g. protecting the major banks of the Federal Reserve system). Neither perspective poses the systemic aspects of macroeconomic policy formation nor the unseen agenda these engender. Neither acknowledges the weight of economic power and economic processes on the public policy environment.

Therefore it is important to differentiate political responses to a plurality of influences from structural relationships intrinsic to the

capitalist mode of production. These relationships are the essence of the "capital logic" argument which asserts the relevance of Marxist value analysis in the expanded social reproduction of capitalism as a social system (Jessop, 1982). The primary objective of the next chapter is to elucidate the theoretical structure which underlies this analysis.

Miliband (1983) christened the inherent structural linkages of the nation state as the "national" interests of executive power. Yet this idea poses the central questions of state theory, i.e. what comprises the "national" interest and how is it transmitted and expressed? Obviously we are speaking of a perceived national interest as far as state decision-makers are concerned, and their perception of the the interests of capital. But besides this, the structural linkages between the economy and the state explain what comes to be the political interests of capital, whether or not they are explicitly perceived. While it is not unimportant what state managers think they are doing, or what capital's leaders think should be done, this framework encompasses the resources, processes, and constraints which flow from the system of production to the state (Cf. Therborn, 1978). In this, I maintain the classic idea of base and superstructure in the relationship between the economy and the state, but I interpret it in an architectural mode, in which the edifice consists of a unity of both parts, and the form of the superstructure cannot be determined strictly by the form of its base (foundation and skeleton).

While government in the United States incorporates the essence of the dominant fractions of capital, it nevertheless must also respond to the "needs" of capital as "capital" and to the "needs" of the state as "state". This is the unity of representation and autonomy of the state vis-a-vis the economy which is central to Marxist political debate in the 1970s and 1980s. The form of the modern state and the nature of its regimes appear to be radically different internationally yet there is a basic uniformity in the response of these advanced capitalist states to problems of macroeconomic disorder (Cf. Cameron, 1981). The key to this similarity is that despite the power of the state, the logic of capital still rules the macro-economy, particularly in a period of internationalized production. This perspective is not universally accepted, partly because of legitimate doubts about the ability of nation states to control their own destiny under world capitalism and partly because of less legitimate assertions concerning the existence of "state capitalist" political structures. This dissertation concentrates on the nation-based effects of public policy. This is convenient since the United States is still the hegemonic partner of the advanced capitalist world but it is also conceptually apt in terms of the (still) national political effects of international macroeconomic performance. Nonetheless, international linkages are also discussed in some detail and the potential of "transnationalizing" the state is an important topic in discussion on the future of the state.

Chapter 3 introduces business cycle dynamics and macroeconomic theoretical approaches to these phenomena. There are substantial

technical questions whether the state can truly "manage" the macro-economy (Cf. Romer, 1986). Fiscal and monetary policy clearly affect the economic variables which form their implementation, and the economic relationships between these policy variables and the underlying macroeconomic aggregates have at least an allocative and redistributive effect. Similarly, long-term growth policy can clearly shift national resources between sectors of the economy and thus alter its industrial composition. The same is true for international economic policy towards exchange rates. Certainly the fiscal record of the 1960s and the monetary record of the 1980s suggests that macroeconomic policy matters. However, none of this is to argue that macroeconomic policy solves the underlying tendencies of a capitalist economy. Macroeconomic policy attempts to change the political impact of the economy, especially in the short-run, as a means for resolving socially long-run economic tendencies.

The empirical part of the dissertation concentrates on the differences in business cycle management during four periods since 1948. This material is presented in Chapters 4 - 7 which also introduce some aspects of the structuralist argument. The internationalist aspects of macroeconomic policy formation are discussed in Chapter 6.

These periods begin with the Kennedy administration's initiation of deficit financing which is seen as the time epitomizing liberal economic policy. The second period begins with Johnson's tax

surcharge of 1968, in which fiscal policy turned around and began to clash with monetary policy. This represented the apparent limitations of Keynesianism. The growing reliance of the state on the Federal Reserve in the 1970s identifies a third period in which there occurred a stronger centralization of economic policy formation. Finally, the Reagan administration's supply-side initiative is seen as signaling a new period in industrial retrenchment and corporate freedom in the United States.

The result of these historical investigations is to suggest that the increased reliance of the U.S. state on the Federal Reserve for macroeconomic policy marks a key movement toward a "refuge center" in U.S. government. Monetary policy is particularly limited as an interventionist policy tool by the indirect nature of its effects (compared to tax and budget policy), but it is shielded from public scrutiny and its implementation is closely linked to hegemonic fractions of capital through the banking system. This shift in policy orientation is made possible by changes in the structure of capital and in the state, and it is made necessary by the economic and social relations which pertain in the United States today.

To analyze the state as a macroeconomic manager, we must examine how segments of the state apparatus respond to the fluctuations in economic activity which are endemic to industrial capitalism, even in its advanced stages and to the particular conjunctural concerns of various segments of the corporate sector, and how these responses are

homogenized into an extant, if not entirely coherent, state policy. This process of homogenization (or its failure), combined with specific features of social and political practices arising from economic instability is the essential functional basis of the state's macro-economic policy role.

The State, through being massively involved in circulation-consumption for the purposes of reproducing labour-power, is drawn more and more to intervene in the articulation of the production cycle with the cycle of circulation-consumption. It does this by means of its current role in monetary management. (Poulantzas, 1980, p. 179.)

Understanding this role requires examination of the fractions of the ruling class, but this examination must be undertaken within a structured analysis intimately correlated to the sectoral dynamic of macroeconomic activity and to the abstract relationships of systemic reproduction. This is the primary objective of Chapter 8.

The capitalist crystalization within the state excludes, to the extent possible, the participation of disharmonious elements (e.g. labor and small capital) in effective state power. If the state fails to avoid this participation, and the role of Congress in fiscal policy represents such a failure, then alternative institutional forms must be developed.

The very process of permutation [entrance of the popular masses into sections of the state apparatus] tends to reorganize the centralized unity of the State around the newly dominant apparatus -- an apparatus which thereby becomes the

supreme refuge-centre of bourgeois power in the State, remaining in power as such throughout the period of Left government. (Poulantzas, 1980, p. 138.)

Although the capitalist state is a state for the capitalist mode of production, because the state is relatively autonomous from capital, problems may arise in economic policy. Poulantzas' idea of a "refuge-centre" of capitalist power within the structures of the state is an essential component to understanding the nature of state power. Specific institutions and bodies of the state can be transformed by popular pressure, but the basic character of the state remains capitalist until the link between the economic and political structures is broken. The state maintains its capitalist nature by reorganizing its institutions and by applying its economic and ideological resources in tune with the hegemonic fractions of capital.

Finally, in Chapter 9, I discuss the relationship between current economic and political problems facing advanced capitalist societies and suggest forms of change which may be anticipated. This section explores the possibility that the form of the state may change in response to predictable economic pressures and suggests how these changes, which are intimately involved in macroeconomic performance, may affect the boundaries of independent political activity.

Theoretical Framework

Structural aspects of the business cycle in post-World War II U.S. macroeconomic policy formation reveal significant opportunities for

political expression on the part of dominant fractions of capital. Examining this period from a structuralist perspective helps make these opportunities clear. Despite a variety of criticisms directed toward the political sociology of Nicos Poulantzas, his conception of the state in capitalist society is not only central to understanding the current intellectual discussion of public policy, but it also provides the best framework for understanding the social relationships of this period. Poulantzas' use of class fractions and ruling blocs, his use of hegemony as a central concept in the ideological role of the state, and his persistent use of structural determinations are essential in understanding the state's attempts to control aggregate economic activity. Poulantzas' earliest work was Political Power & Social Classes (1973) in which he was heavily influenced by Althusser. His major work on social classes was Classes in Contemporary Capitalism (1978), and his final work was State, Power, Socialism (1980) in which Poulantzas questioned many of his earlier ideas. Central to interpretation of Poulantzas is Erik Olin Wright's Class, Crisis and the State (1978) in which he applies a systems analysis framework to structuralism.

The first theoretical section (Chapter 2) explores the composition and interests of the state in advanced capitalism on an abstract level and relates these to the state's functions in the economy. Schematic representations of these interrelationships are provided so that the argument is as compact as possible.

This section also raises the debate concerning the existence of ruling class consciousness and its application to the direction of the state. A central critique to the structuralist perspective is Fred Block's "The ruling class does not rule" (1977) in which he investigated state managers as social agents (historical subjects). Holloway and Picciotto (1978) and Jessop (1982) synthesize the "capital logic" school of thought which might be viewed as extreme structuralism in which consciousness is not required. Finally, Goran Therborn's (1978) aptly titled What Does the Ruling Class Do When it Rules? raises the central question of this dissertation on a general level. Therborn's analysis provides the focal point in Chapter 8 on the mechanisms of macroeconomic decisions while the capital logic argument reappears in the Conclusion (Chapter 9).

The second theoretical section (Chapter 3) discusses macroeconomic theory and policy. This chapter provides a typology of the state's macroeconomic interests in the context of the ideological defenses of liberal democracy. Analysis of macroeconomic policy in late capitalism must avoid the tendency to undertheorize in an attempt to emphasize the empirical regularities of the economy: the effect of such a lack of theory is to depoliticize the analysis (Cf. Devine, 1986). The "demands" of the macroeconomy must be translated into potentials for dominant class action although the complexity of the capitalist economic structure must be accepted. In this way, with an historical approach to macroeconomic policy formation, the structural

prerequisites of the mode of production can be compared to the actual policy determinations of the state. Furthermore, macroeconomic policy cannot be understood simply as government policy. It must be viewed from the separate political powers of major fractions of capital, both within and outside the state, and from the perspective of the dominated classes and their political representation.

The success story of post-World War II U.S. capitalism at first discouraged investigation of the business cycle. The experience of the "new economics", i.e. explicit macroeconomic intervention, produced theories of political business cycles once links between macroeconomic policy and electoral success were observed. The reappearance in 1974 of significant economic dislocations in the United States rekindled interest in theories of the business cycle amongst business economists (but not academics) while the political business cycle seems to have become a technique of state (Cf. Silk, 1984). For those economists with a more materialist conception of society this turn of events came as no surprise, but for those wedded to the steady state growth models of the 1960s and liberal/conservative notions of macroeconomic policy, the business cycle fit uneasily into their intellectual superstructure. While the "giants" of the field debated Keynes versus Friedman, the right invented "rational expectations" (Lucas, 1981) and reinvented supply side economics. In no place were the laissez faire presumptions of a private property economy significantly challenged. For political scientists, macroeconomic policy became an increasingly interesting "event" but only recently have the long-term implications of fiscal and

monetary policy formation been explored in policy analysis. As Boddy and Crotty (1975) emphasized, macro (economic) policy is significantly affected by the economic struggle of different segments of civil society.

The general theory of the state needs to incorporate the structures of macroeconomic policy formation in terms of the institutions, interest groups, intellectual justifications, and policy choices which have occupied the recent past. The decision-making calculus of the Federal government is integral to this issue and it needs to be covered by the theoretical domain of the state. Although empirical verification of the proposed theoretical framework is important, it is unlikely that the political dimensions of macroeconomic policy formation can be specified with sufficient precision so that detailed analysis of economic indicators would be fruitful. However, explanatory statistical analysis will be introduced in historical perspective and the work of Domhoff and Useem provides a basis for empirical investigation of elite leadership structures.

While a substantial portion of political economic writing on the capitalist state's economic functions has emphasized ideological elements of system reproduction, the rhetorical component of the politics of the business cycle is dual. The business cycle generates a policy debate within the power structure which then attempts to legitimize its policy choice in defense of the prerogatives of a system of private property. These considerations are explored most

convincingly by O'Connor (1973), Baudrillard (1981), and Laclau (1979). It is the "national interest" and "refuge center" aspects of contemporary macroeconomics which are the most important ideological components today. The success of Reagan in achieving ideological room for intensified accumulation indicates the extent to which the capitalist economy can be assisted in more than one way. Some of the ideological components affecting macroeconomic policy making throughout the post-World War II period are explored in detail in Chapters 7 and 9.

Methodology

An appropriate empirical methodology for relating the historical record of U.S. macroeconomic management to a structuralist framework is that developed by Barrington Moore, Jr., particularly in his Social Origins of Dictatorship and Democracy (1966). Moore employed comparative history and de facto structural analysis in his extensive treatment of social transformation ("modernization"). This involved an unfolding patina of historical explanation in which events and theory interposed themselves although the structures of explanation were seldom explicit.

Theda Skocpol (1979, 1980) developed this approach with an increased emphasis on structural perspectives. She utilizes explicit critique as the basis for developing a theoretical structure to which

historical detail will be compared. Her approach allows the reality of structural determination to penetrate the historical context.

One can begin to make sense of such complexity only by focusing simultaneously upon the institutionally determined situations and relations of groups within society. To take such an impersonal and nonsubjective viewpoint -- one that emphasizes patterns of relationships among groups and societies -- is to work from what may in some generic sense be called a structural perspective on sociohistorical reality. (Skocpol, 1979, p. 18.)

However, Skocpol's work is limited in fundamental ways by the nature of her conception of explanation through historical generalization (Cf. Manicas, 1985, p. 310). This is taken by Skocpol from Mill, and despite strong protestations to the contrary, she utilizes this approach throughout her work (Skocpol, 1979, pgs. 36 and 288). One way in which this surfaces is in her conception of the substantial autonomy of the state and political movements (Skocpol, 1979, p. 29).

It is clear that even consistent application of a theoretical structure to historical explanation is not sufficient. As Poulantzas pointed out in his critique of Miliband's The State in Capitalist Society, theoretical and epistemological clarity is a "precondition of any scientific approach to the 'concrete'" (Poulantzas, 1969, p. 69). Although the more interesting aspects of this dissertation may be the historical discussion of macroeconomic policy-making from 1960 to 1980s, the argument developed in the empirical section is determined by the nature of the theoretical development in Chapters 2, 3, and 8.

Conclusion

Most analysis of economic policy stresses either the technical aspects of policy formation (meeting national economic objectives through manipulation of macroeconomic policy aggregates), or the institutions of the policy making process, or the functional objectives of such policy (the role of economic policy in legitimizing a system of economic and political power). None of this provides an adequate explanation of policy and policy formation, although each provides fruitful insights.

This dissertation makes the argument that structural political economic analysis is a superior explanatory methodology. This case is made first by setting out the roots of structural analysis and applying them to the problem of macroeconomic policy formation. Then the historical development of the macroeconomic policy structure in the United States is described. This illustrates that the predominant trend in macroeconomic policy formation is toward an interventionist government policy which accepts the basic logic of capital accumulation and toward a centralized, political and a-democratic policy-making process, with an emphasis on the Federal Reserve, and away from "Keynesian" forms of macroeconomic management.

One of the most succinct analyses of this period is by Gold (1977) who also noticed the shift in macroeconomic policy orientation toward monetary policy. He attributed this to the contradictory demands of Vietnam war expenditures on fiscal policy. Gold's account of the

strategy behind the immediate post-World War II movement toward Keynesian macroeconomic policy is convincing. However, when it comes to the dismemberment of Keynesianism, Gold seems to base his explanation on the technical factors of policy implementation rather than on the same kind of structural linkages, political considerations, and human interventions. So this dissertation has an explanatory role in an area which appears to have been left underdeveloped by others.

The thesis is developed in this dissertation that the structure of the macroeconomy and the capitalist state now requires the formation of macroeconomic policy behind closed doors, a movement away from taxation and expenditure controls would involve more popularly accountable political bodies such as the Congress. This trend is supported by the development of the U.S. economy as a finance capital center for the multinational corporate sector and the development of a political "power bloc" around that sector of the corporate economy. A subordinate policy trend is based on the internationalization of production within a world political system still based on the nation state. International economic integration tends to reduce the specific effects of national macroeconomic policy formation and implementation, but it does not negate these policies, and it increases tendencies toward international policy coordination.

Structural analysis shows that the enduring social relations of economic production and political power provide a "matrix" through which explanation of specific policy actions, and long-term policy

trends, is capable of being linked to an analysis of potential future forms of the state in advanced industrial capitalist society. The result of such structural analysis is an enhanced understanding of the basic prerequisites of the political power structure of the capitalist state.

CHAPTER 2

ROMANCING THE STATE

Introduction

This chapter reviews a number of conceptions about the nature of the capitalist state as prelude to examining the post-World War II history of the U.S. macroeconomy. In particular, I emphasize the work of Nicos Poulantzas, whose analysis of the state was trenchant even if his language was complex. This chapter synthesizes Poulantzas' structuralist viewpoint and begins to link his perspective to macroeconomic policy analysis through heuristic devices adapted from Erik Olin Wright.

The truly explosive growth of intellectual labor on the nature of the capitalist state reflects a number of political and intellectual currents. When Poulantzas in his debates with Miliband began the resurrection of Marxist thinking on the polity (approximately coinciding with Mandel's similar reconstruction of Marxist economics), radical political economy had degenerated into two forms: recitation of old formulae, and wild enthusiasm for economic, conjunctural issues.

Poulantzas pointed to a new target for radical political analysis: the enduring structures of the capitalist polity. Fifteen years later, the richness of the state literature is sufficient to paralyze even the most ardent political activist with visions of an all encompassing ruling class with complete ideological and coercive hegemony. Indeed, one account of Poulantzas' own death stressed this dilemma, and Wallerstein created a recognizable constituency with just such a vision of the world social system. As the literature on the state developed, so did the capitalist state, and Poulantzas' project for politicizing alternative politics has yet to be achieved. Where are we today?

Marxist social theory is nothing if it is not connected to its materialist base, the functioning of the economic system. In today's world there are two dominant modes of production: the relative autarky of the state socialist countries, and the aggressively expanding system of capitalist enterprise. The primary focus of the world capitalist system (meaning the non-socialist world) has always been stateless -- it is the privatized accumulation and reinvestment of capital, for whom national boundaries are an archaic, if frequently useful, cultural artifact.

In the modern world of multinational corporations, this focus is even more relevant despite the capitalist nation-state's increased ability to alter the trajectory of some economic conditions. The transnationalization of economic linkages has also increased the de facto international synchronization of macroeconomic forces, and this reduces

the overall efficacy of nation-based macroeconomic policy. Although these international economic linkages promote the social basis for a transnational state, such a state does not exist. Neither U.S. hegemony nor multilateral government provides a means for overcoming the basic sovereignty of individual nations.

Mandel (1970) argued 20 years ago that the "superimperialism" implied by a transnational state was basically impossible in a world in which inter-capitalist competition was aided and abetted by governments. Similarly, Poulantzas argued that the internationalization of capital is not a "genuine transnational merger" (Poulantzas, 1978, p. 78). The nation-state is seen to reproduce contradictions amongst the dominant class fractions, of which "internal" and "comprador" bourgeois interests are examples. But truly transnationalized capital would be a similar fraction, and thus does not represent a qualitative shift in the composition of the state. It may represent a new element affecting international state capabilities.

The ties between state and nation are not broken, and the basic sites of reproduction and uneven development are still the national social formations, insofar as neither the nation nor the relation between state and nation are reducible to simple economic ties. (Poulantzas, 1978, p. 79.)

The overtly rational and functionalist state capitalism argued by political activists such as Kidron (1968) clearly has not been achieved. The transnationalization of the capitalist state will be an important qualitative step in the history of capitalism. In the meantime, macroeconomic policy remains "domestic" policy, modified by

developing multi-nation economic relations and policy institutions. Analysis of contemporary macroeconomic politics still requires a primary focus on the "internal" state, although it must increasingly be informed by an understanding of the "external", pan-national economic structures.

This dual orientation is especially important in the United States, where macroeconomic policy could be viewed as domestic because of the relatively small trade sector of the U.S. economy and the international hegemony of the U.S. economy and state. Although this continues to be so in the United States, it is becoming less and less the case. The success of new aspects of the "external" capitalist state in mediating the debt crisis has increased the political salience of this international capitalist class fraction. International linkages are all the more institutionalized in the more trade dependent economies of Western Europe and Japan. These issues are explored more fully in Chapter 6 where I discuss the international elements of macroeconomic policy.

While much of the state literature has been criticized as overly abstract, or nation-based, this may not have been a developmental disadvantage. To the extent that the state and aggregate economics become transnationalized, the theoretical structures of state theory are still available for translation into this new situation. The emphasis of development economics and political science on the constraints facing the Third world has been an important factor in identifying the importance of the impact of transnationalization on the state. The

burden for this dissertation is to deal with what is still essentially a domestic policy in an internationally-influenced economic environment.

It must also be stressed that relatively marginal international ramifications of domestically-oriented macroeconomic policy in the advanced industrial capitalist countries may have dramatic effects on Third world economies. These effects, and the often contradictory roles of domestic and international policy, are the subject of another dissertation.

Poulantzas' approach to the capitalist state involves a complex network of structural and conjunctural determinations. Perhaps the most difficult aspect of social analysis is the fact that concrete social systems are simultaneously in equilibrium and disequilibrium; capitalism is reproducing the conditions for its own maintenance and expansion and at the same time it is reproducing the conditions for its modification and demise. The reason for this contradiction is the basic dichotomy of interests between capital's owners and capital's laborers, and it is a contradiction without parallel in modern society. The historical "project" of capitalism, revolutionizing the means of production, also socializes the relations of production and creates an uneasy compromise between a system's maintenance and degeneration.

The primary locus for this contradiction in the reproduction of capitalism as a social system is economic, but conflicts based on other

social categories -- nation, sex, race, and religion, inter alia -- are also reproduced through the state. These conflicts are essential in the determination of the specific instances in a social system's reproduction and the generation of specific political and social practices. Indeed, the reproduction of a concrete social system is a collision of specifics. These components are processing points of growth and rebellion in the social reproduction of their concrete relationships, institutions, and agents. Failure to recreate adequate social practices to maintain the conditions of the social mode leads to crises of reproduction, dual or contested power, and history. For macroeconomic policy formation, the primary social structure is that part of the social system which generates, realizes, and reproduces economic value and which attempts to regulate the effect of those processes. Other social divisions are affected powerfully by macroeconomic policy, but their effects do not have appear to have a determining role in the formation of that policy.

The purpose of this chapter is to introduce the structuralist argument about the nature of the capitalist state as a means for "grounding" the historical evidence of the following chapters. The structuralist perspective on macroeconomic policy formation is developed formally in Chapter 8. This chapter introduces the interpretations of Poulantzas concerning the organizational role of the capitalist state. Then the major reinterpretation of these ideas by

Wright is discussed and developed. Alternatives to the Poulantzas approach are evaluated and the chapter ends with a synthesis of these ideas.

Poulantzas and the State

For a considerable period, the entire "state" literature was considered an arcane branch of European philosophy (Cf. Easton, 1981), but today it clearly provides the focus for critical interpretation of capitalist political relations. Therefore I will proceed to a straightforward account of the key themes in Poulantzas' work which bear on macroeconomic aspects of social reproduction.

Stuart Hall in his obituary for Poulantzas wrote:

In his arguments concerning the separation of the 'economic' and the 'political', the role of the State in organizing the power bloc and disorganizing the dominated classes, and in displacing the class struggle through the construction of a 'general interest' and the isolation-effect (the constitution of the legal-individual citizen), Poulantzas clearly attempted to give Gramsci's concept of 'hegemony' a more theoreticized and systematic formation. (Hall, 1980, p. 62.)

These arguments are linear descendants of basic Marxism, both in the separation of civil society from the state in the capitalist mode of production, and in the argument of base and superstructure:

Through the emancipation of private property from the community, the State has become a separate entity, beside and outside civil society; but it is nothing more than the form of organization which the bourgeoisie necessarily adopt both for internal and external purposes, for the mutual guarantee of their property and interests. (Marx, 1970, p. 80.)

Poulantzas stressed the relative autonomy of the state super-structure from the determinant (for Poulantzas) economic base structures because it is important to understand the state as neither functionalist nor instrumentalist, but linked to the underlying dynamic of capitalist society.

On a terrain of political domination occupied by several classes and class fractions and divided by internal contradictions, the capitalist state, while predominantly representing the interests of the hegemonic class or fraction (itself variable), enjoys a relative autonomy with respect to that class and fraction as well as to the other classes and fractions of the power bloc. (Poulantzas, 1978, p. 97.)

Much of his concrete analysis stressed the mixture of reproduction and transformation intrinsic to the capitalist mode of production, and this was no more clearly stated than in his concepts of the "power bloc" of the capitalist ruling class and the "refuge centre" in the context of sharpened and systemically successful class struggle. The equilibrium of social accumulation and consensus was continually faced with the prospect of disaccumulation and social conflict. The problem for the capitalist state, which congeals the forces of reproduction as an integral aspect in this historical process, is how to intervene on behalf of capital while maintaining its separation from capital.

Poulantzas' incorporation of economic phenomena into the analysis of political systems was based on materialist, structural relationships, as opposed to the more eclectic conceptions of political business cyclists operating in the pluralist tradition. Poulantzas also

incorporated the significance of corporate structure and state decision-making into economic analysis, distinct from the norms of neo-classical economics.

Poulantzas saw the state as a condensation of class relations, that is, acting as the organizer of the interests of the capitalist class even when these interests were inarticulate or in conflict (Poulantzas, 1978, p. 25). The basis of state power lay in the social division of labor endemic to the capitalist mode of production. The state's economic decisions necessarily reflect the structural linkages of the capitalist state to that mode of production, as well as reflecting the specific composition of the power bloc of the state itself. The essence of Poulantzas' conception of the state is that the class powers the state encapsules come primarily (but not exclusively) from the production and realization of surplus value.

As a result, Poulantzas emphasized the importance of capital possession over capital ownership as the primary focus for control over labor and for control over the process of capital's reproduction. This emphasis occurs because of Poulantzas' concentration on "place" in class struggle as central to the understanding of social action, rather than concentrating on the interpersonal activities of social agents. The different segments of the industrial structure generate "fractions" of capital (as well as divisions within the working class), some of

whom ally in formal and informal political alliances to generate the "power bloc" (Poulantzas, 1978, p. 24). These alliances are dominated by economic linkages.

Because a concrete social formation may consist of several modes of production, the state also exists to maintain the unity of the social formation by concentrating class domination, i.e. the domination of capital over labor in capitalism. Poulantzas argues that the state apparatus represents materialized political and ideological relations, while the economy represents materialized relations of production. Thus derives Poulantzas' famous formulation: the state as a condensation of class relations.

Inside the structure of several levels dislocated by uneven development, the state has the particular function of constituting the factor of cohesion between the levels of a social formation. (Poulantzas, 1973, p. 44.)

As such, the state carries out two functions: preventing the political organization of the dominated classes and continually working on the organization of the dominant class at the political level "by cancelling out their economic isolation" (Poulantzas, 1973, p. 189). To do so, in a class society determined by the separation of economic producers from their product, the state has a "relative autonomy" from the economic structure.

The capitalist state, characterized by hegemonic class leadership, does not directly represent the dominant classes' economic interests, but their political interests. (Poulantzas, 1973, p. 190.)

It is clear that despite the separation of the economic from the political in the capitalist social system, the determination of class place by the relations of production provides a dialectical unity in which the state's class basis is seldom, if ever, ambiguous.

It [the state] organizes this hegemony with respect to the social formation as a whole, thus also with respect to the dominated classes, according to the specific forms that their struggles assume under capitalism. ... On this articulation depends, among other things, the forms assumed by the capitalist state. (Poulantzas, 1978, p. 98.)

State policy consists of contradictory and temporary measures, lacking a "rational kernel", which serve to initiate the crises of legitimacy which O'Connor argues so well.

The state has thus been transformed from a buffer or safety valve on economic crises into a sounding-box for the reproduction crises of social relations. ... This is the reason why a certain political consensus, based on the state as guarantor of expansion and expressed in particular by the whole ideology of Keynesianism, is no longer effective. (Poulantzas, 1978, p. 172.)

However, the personnel of the state system are, by their position in relationship to capital, agents who fulfill functions of capital (Poulantzas, 1978, pgs. 175 & 180). This is some of Poulantzas' more "functionalist" writing, but it relates to the specific nature of the concrete social formation, rather than to the abstract nature of the mode of production and the articulation of social structures.

The ideas in Classes ... are probably Poulantzas' enduring legacy to political analysis. That their concrete application was

significantly modified in State, Power, Socialism (1980) only indicates the temporality of human beings.

Poulantzas' analysis began with the nature of the reproduction of social classes as determined by the sites of the production (and realization) of surplus value. The capitalist state's unique position vis-a-vis the nature of economic reproduction raises many questions about the specific determination of political practices. Poulantzas viewed the processes of political domination as parallel to, but not synonymous with, the process of capital's domination.

Wright's Interpretation

Wright translated Poulantzas' concepts of structural causality into a more recognizable systems theoretic approach. These ideas were compiled in Class, Crisis and the State (Wright, 1978) and represented a thorough, although incomplete, introduction of Poulantzas' methodology within the social science vocabulary of the English-speaking world.

Wright had two projects in Class, Crisis, and the State. First, he attempted to place in a systems theoretic framework the structural causation used by Poulantzas. Second, he criticized Poulantzas' assessment of class boundaries in order to illustrate the nature of

class formation. From this perspective, Wright argues for an increased possibility of political practice directed toward "contradictory" class locations.

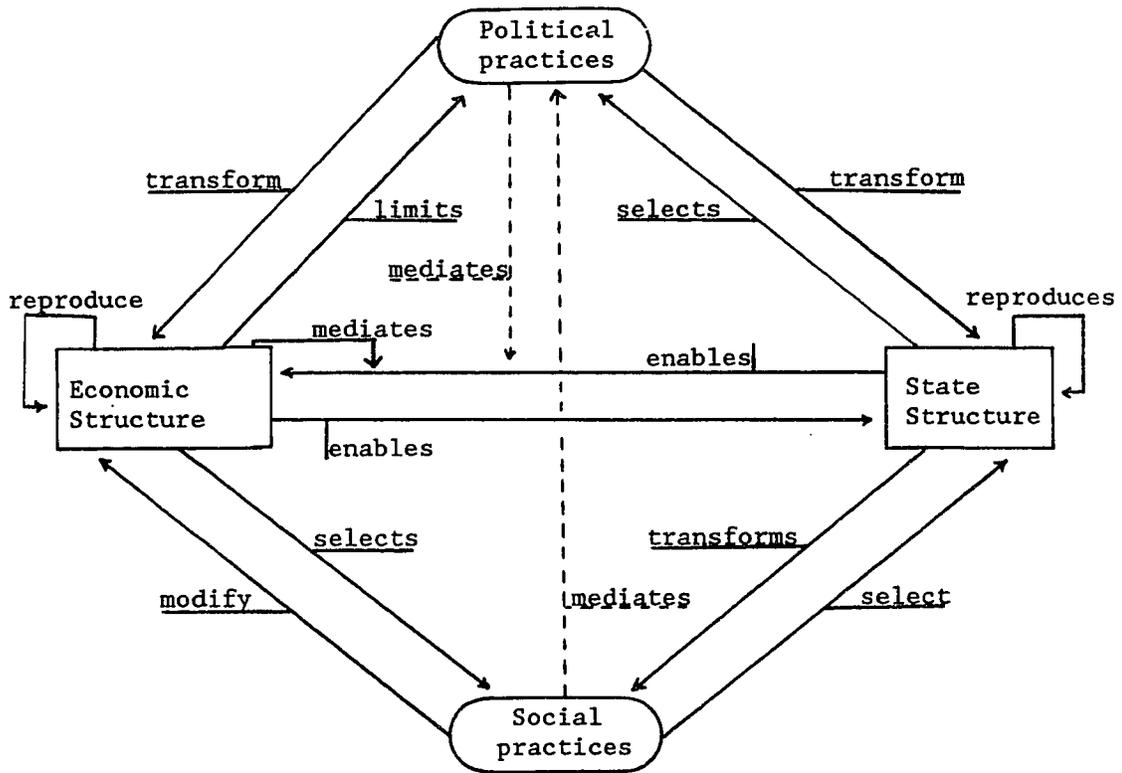
Wright delineates six "modes of determination" for distinguishing relationships within the framework of structural causation. Some of these appear to be primarily functional causes, such as limitation, selection and mediation while others appear to be systemic, such as reproduction, limits of functional compatibility, and transformation. These elements are combined in a systematic approach to the relationship of state and economy to political practice.

The heuristic diagrams which Wright develops in the first section of Class, Crisis and the State are important contributions to a realist theory of society. Unfortunately it seems that both at the heuristic level and in the concrete application of this methodology, Wright fails to deal with the differences between structural analysis at the level of the mode of production and as a concrete historical analysis. Social structures are mixed with social practices, and a significant distance is created between the historical materialist philosophy which lies at the heart of Wright's structural analysis and the implementation of that analysis.

Wright creates a tri-fold structure of structures without delineating the levels of determination between them. That only the economic structure provides a concrete "limitation" on other structures is an acknowledgement of the primary level of determination cited by

Marx in The German Ideology and referenced by Poulantzas in an interview with Stuart Hall (Cf. Hall, 1980). Although most of Class, Crisis and the State is an essay on class location, it typifies the problem of depending on secondary levels of determination prior to identifying and exploring primary levels of determination. In class boundary terms, Wright must reduce his analysis of class locations to class interests in many cases. Ideological and political factors are especially important in determining the class trajectory of social groups but these are structured relationships too, and the difference between structures and practices must be upheld.

We can "adjust" Wright's perspective by a) embedding class struggle within each structure so that it is not viewed as an independent outcome of these social structures; b) viewing political practices as the resultant of economic and state structures; c) allowing for the partial self-reproduction of the economic structure (and the state) and allowing for the mediation of the reproduction of the economy by the state; and d) expanding the concept of "limitation" in the relationship between economy and state to include "enabling", a more generic determination involving resources and structured social relations. These ideas are displayed in Figure 2.1 which is a revision of Wright (1978, p. 22).



—————> Strongly affects
 -----> Partially affects

The labels on the linkages between structures and practices are generic and suggestive, and their full elaboration is beyond the scope of this section.

Figure 2.1. Revised model of structural relationships --
 Political practices

In these diagrams, the arrows represent basic forces of social determination: Wright considers them "symbolic maps" and "models of determination." The arrows "make explicit those linkages among categories which are either vague or implicit in theoretical statements," indicating the non-random pattern to dynamic social movements (Wright, 1978, p. 15).

A stronger emphasis on the role of the economic structure in the basic foundation of class structure, class formation, and class practices is shown in Figure 2.2 which contains combined determinations similar to another figure by Wright (1978, p. 27). "Practices" have replaced "struggle" as a structured relationship since class struggle permeates all the structures of capitalism, from the forces and relations of production to the political manifestations of class. The role of production in the creation of class structure and class formation is acknowledged explicitly by the dialectical dichotomy of the relations and forces of production, respectively. The specific characteristics of the relations and forces of production are identified, which could lead to a discussion "primary" and "secondary" levels of exploitation within the context of Wright's contradictory class locations. Finally, the distinction between social structures as abstract entities (encompassing concrete activities) and social practices as aspects of social agency are suggested by the circular boundary to the practices space.

The purpose of these modifications to Wright's heuristic models is more than refinement. The revised models intend to make explicit the primary role of the mode of production in the determination of social and political relations and at the same time to reveal the causal complexity of the resulting practices.

Wright restricts his view of economic determination as one of "limitation." To the contrary, in a wide spectrum of social practices, the dynamic of the economic structure actively "determines" routine social and political practices, at least in the more active sense of enabling and promoting. Although human agency makes almost any practice possible, the burden of applied structural analysis is to relate the nature of social structures to the ensemble of social practices. Wright is quite sensitive to this problem although his empirical work has been less successful.

In the next chapter these ideas are extended to a determination of the structures of the business cycle. Chapter 8 provides a more complete ordering of the relationships involved in the state itself.

Alternative Perspectives

The field of study of the state has been extensively covered in the past few years, and analytical and political positions have been identified more clearly. The most comprehensive survey is by Jessop (1982) but it is written largely in capital derivationist language and probably requires further interpretation. Miliband has continued to

extend his argument with Poulantzas into the 1980s (Miliband, 1983a, 1983b). Carnoy's The State and Political Theory (1984) provides a class perspective examination of liberal/corporatist and Marxist theories of the state. He discusses in detail the Miliband - Poulantzas interchange and argues that both fail to provide a dialectical framework for the relation of the state and civil society (Carnoy, 1984, p. 104 ff). Carnoy concludes that liberal and corporatist theories of the state founder on notions of general welfare optimums (or universality) which are tied to notions of economic and political efficiency rather than equity.

Class-perspective theories view the state as a product and a shaper of the social relations of domination. Each of these alternative class-perspective theories (logic of capital, Weber's view of bureaucracy, and class struggle orientation) has its own political perspectives and research agendas. The historical specificity of the state requires regionally bounded research, and none of the theories has a hegemonic intellectual position.

Reviewing this now well-documented discourse is subsidiary to the tasks involved in developing a structural account of macroeconomic policy formation. However, three writers raise points of direct relevance to the heart of Poulantzas' argument, and consideration of their critique provides an additional means for developing the theoretical strength of this perspective.

Fred Block challenges Poulantzas on the consciousness of the ruling class and the problems of "agency" in political practices. Anthony Giddens challenges Poulantzas on the epistemological basis of structural analysis, and Immanuel Wallerstein provides the central focus for most internationalist analysis today. Each of these writers lies within the general problematique of radical political economy, and their differences with Poulantzas highlight the strengths of the structuralist method.

Block

Block opened his criticism of the Poulantzas framework with "The ruling class does not rule" (1977), an article which supports the concept of the autonomy of the state, relative or otherwise. These ideas were developed in "Beyond relative autonomy: state managers as historical subjects" which concentrated on the "specificity of the political" (Block, 1980a). Block's problem with "relative autonomy" was its imprecision, its lack of limits, and its lack of identifiable structures of limitation. The alternative Block proposes is exactly counter to Poulantzas:

This formulation assumes that state managers collectively are self-interested maximizers, interested in maximizing their power, prestige, and wealth. But any set of political institutions will set limits on the kind of maximization normally pursued. ... Beyond these rules lie particular patterns of class relations that reinforce the limits on state managers' pursuit of their collective self-interest. (Block, 1980a, p. 229.)

That is, for Block, not only is the economic not primary, neither are class relations the primary "limitation" on the acts of state managers.

My argument is that under the surface of recent corporate successes in shaping state policies lies a sharpening contradiction between the interests of capital and the fundamental interests of state managers. ... The result is likely to be political paralysis and an accelerating erosion of bourgeois ideological hegemony. (Block, 1980a, pgs. 238 & 240.)

The autonomy of the state becomes absolute if the state managers become a class in and for themselves. This is the bureaucratic tendency emphasized by Weber, but it is a tendency with little empirical evidence under advanced industrial capitalism.

Even in his first article debating the merits of Miliband's The State in Capitalist Society, Poulantzas wrote in critique of this perspective:

This is a problematic of social actors, of individuals as the origin of social action: sociological research thus leads finally, not to the study of the objective co-ordinates that determine the distribution of agents into social classes and the contradictions between these classes, but to the search for finalist explanations founded on the motivations of conduct of the individual actors. (Poulantzas, 1969, p. 70.)

Thus, for Block, state managers are considered an independent threat to other classes, even those classes which are said to control the resources available to the state (Block, 1980a, p. 230).

It seems to me that the perception of a "threat" to capital posed by state managers is the essence of arguments common to Bowles, Gordon, & Weisskopf (1983), inter alia, concerning the contradiction between liberal democracy and advanced monopoly capitalism. Expecting a "tipping point" which potentially breaks the relationship between state and capital, they exaggerate the potential independence of state managers (and thus the state), although they accept the severe limitations imposed by capital on the state during normal periods. Ironically, as I will discuss more fully in the conclusion (Chapter 9), it was a partial acceptance of a more-than-relative autonomy of the state which led Poulantzas into the dead end represented by State, Power, Socialism.

Block provides excellent guidance in specifying the "concrete structural mechanisms that prevent the state from exceeding its normal authority" (Block, 1980a, p. 228). He delineates some of these structures: capitalist control over investment, capitalist ownership of the means of persuasion, capitalist participation in government and in private policy-making forums, and the reliance of state managers on capital for resources. However, Block pointed to the uncertainty of investment as a major source of capital's conscious influence over the state: "capitalists, in their collective role as investors, have a veto over state policies in that their failure to invest at adequate levels can create major political problems for the state managers" (Block, 1977, p. 15). The idea of a capitalist "veto" is undoubtedly correct in regards to a socialist government in a capitalist country (e.g. France

under Mitterand) in which capital strikes reduce the "socialist" nature of the government (and clarify the capitalist nature of the state itself) or in terms of the support capitalists may give the "strong state" such as in France under De Gaulle or in Chile under Pinochet. However, there is also sufficient evidence to suggest that in these rather exceptional periods the ruling class is quite conscious of its collective interests. But in most periods, the processes of capital, itself a highly differentiated social product, do not generate a conscious set of political decisions on the part of the capitalist class as a whole.

Block shifts the major portion of his argument to those "exceptional periods" in which state managers have greater "freedom of action" and suggests that there is a "tipping point," of which fascism is the strongest example, in which state capitalism arises against the interests of capitalists. Although the precise relationship of capital to fascism, for example, is still debatable, it is not obvious that the fascist state began its existence against capital's interests, any more than the "exterminism" of nuclear policy is determined against capital's interests. What Block fails to address in terms of the rise of Hitler is the potential power of the organized working class in Germany and its ultimate impotence through misleadership (Stalinist support of Hitler's ascendancy to the Chancellorship, inter alia). Block also cites depressions and wars as examples of such a "tipping point". In the latter, Block is probably correct insofar as depression

intensifies the class struggle but as his own example of the long-term decline of Great Britain following the 1950s shows, without the organized impetus of a contrary conception, there is little that impells the state to "rationalize" capitalism, particularly if there are many fractions of capital able to survive quite well on their own. In the case of wars, there is little to suggest that capitalists should oppose the increase in state prerogatives if they are able to profit from the war.

In other words, Block argues for a more complete autonomy of the state from the economy on the basis of "rational" state managers but provides the strongest counter to his own argument: "State managers are able to act only in the terrain that is marked out by the intersection of two factors -- the intensity of the class struggle and the level of economic activity" (Block, 1977, p. 27). Block's his abstract analysis suggests a relative autonomy based on the intrinsic if subconscious interests of capital, while his applied analysis returns to an instrumentalist perception of state managers. This is more clearly shown in his analysis of late capitalism.

Block argues that late capitalism is bringing the tipping point of political crisis closer in which the corporate sector is attempting to reduce the prerogatives of the state: "the core of the capitalist offensive has been an attack on the state itself" (Block, 1980a, p. 237). In retrospect it is easier to see that Reagan did not amount to

the anti-statist bogeyman believed in 1980, and that he strengthened many aspects of the capitalist state, particularly its ideological support for the freedom of capital.

While the state may not be directly "derived" from the form and dynamic of capital, its autonomy is severely limited by the requirements of capital. Neither state managers nor capitalists are prescient, and the linkages are sufficiently strong between state and capital (especially the ideological links) that autonomy is at best relative vis-a-vis the dynamic of capital. Insofar as non-economic factors have a specific logic for the state (a proposition Poulantzas raised in 1969 but whose parameters have yet to be discovered), there is more autonomy from the economy.

Block also perceived this limitation on the state:

Our tendency, however, is to be skeptical of the state's capacity to intervene successfully to resolve economic and social contradictions in the absence of powerful social movements advocating one kind of reorganization or another. In short, the state itself is mired in the paralysis that results from the blocking of new productive forces.
(Block, 1979, p. 395.)

The inherent instability and irrationality of capitalism as a mode of production poses an absolute constraint on the ability of the capitalist state to be independent and, as I shall argue, ultimately to be successful in its intervention in the economy.

Giddens

Giddens has proposed a wide ranging modification of the methodology of materialist analysis and this has an interesting intersection with Poulantzas' thoughts on social analysis. Their practical treatment of political analysis, however, differs rather greatly. For Giddens social structures only exist as "moments" in the reality of a social system, thus involving the patterning of interaction and the continuity of interaction in time (Giddens, 1979, p. 62). As such, Giddens closes the gap on the question of relative autonomy.

Social systems are constituted as regularized practices: power within social systems can thus be treated as involving reproduced relations of autonomy and dependence in social interaction. (Giddens, 1979, p. 93.)

The core of Giddens' critique lies in his view of the functionalist perspective of Marx, Poulantzas, and the capital derivationists.

The slide into functionalism occurs when an author supposes that to show that those processes or events are necessary for the reproduction of a social system explains why they occur. (Giddens, 1979, p. 215.)

As an alternative to these perspectives on the state, however, Giddens poses a much weaker argument: "the state operates within a context of various capitalist 'imperatives'" (Giddens, 1979, p. 211). These include the familiar demands for systems maintenance, the reliance of the state on the economy's resources, and the nature of the class struggle.

Giddens also criticizes the "relational" perspective on the state. Giddens cites Marx's idea that the state is the "arena" of class conflict and the "coordinating framework within which economic relationships are carried on" (Giddens, 1981, p. 208) and the similar idea that the state is the "materialization" of class relations (quoting Therborn), and he finds these wanting. The state is to be viewed more concretely: "a set of collectivities concerned with the institutionalised organisation of political power" (Giddens, 1981, p. 220). Yet he too views power relationally, generated by structures of domination involving allocative and authoritative resources (Giddens, 1981, p. 4), and these ideas are related to the potentialities of the capitalist state.

Giddens quotes Kautsky in support of more than relative autonomy: "The ruling class does not rule" (Giddens, 1981, p. 211).

By undervaluing the power of the working class, functionalist Marxists curiously may tend to overestimate the 'relative autonomy' of the state in capitalist liberal democracy. (Giddens, 1981, pgs. 219.)

I find this a confusing opposition of ideas, one which can only be explained by an autonomy of political forms from the means of production. Giddens believes that Marx underestimated the important break signified by the emergence of state power from tribal society and the equivalent importance of the development of citizen rights in the eighteenth Century.

In my view, the emergence of the 'public sphere' in the American and French Revolutions, predicated in principle upon universal rights and liberties of the whole societal community, is as fundamental a disjunction in history as the commodification of labour and property (Giddens, 1981, p. 213.)

From this perspective the state emerges as an "emancipatory force" (Giddens, 1981, p. 220), not in the narrow sense of the progressive or evolutionary aspects of capitalism but as a means of extending citizenship rights into the workplace, against the direct interests of capital.

The state can in some part be seen as an emancipatory force: neither a class-neutral agency of social reform (the theory of industrial society, social-democratic political theory), nor a mere functional vehicle of the 'needs' of the capitalist mode of production (functionalist Marxism). (Giddens, 1981, p. 220.)

These ideas reappear in Poulantzas' State, Power, Socialism and in Bowles, Gordon & Weisskopf's work. Collectively, they are incorrect because they situate the successes of the working class in the structures of the state, rather than seeing the state as accommodating (and claiming) those successes.

Giddens' major contribution on the issue of the state involves the question of the nature of the cohesive element in capitalist society.

Rather than being permanent and stable, the insulation of polity and economy is fragile, incorporating as it does a strong ideological element -- for notwithstanding the real political progress that is inherent in the transition from the liberal to the liberal-democratic state, one principal element of Marx's critique of the capitalist state still applies. The capitalist labour contract (Giddens, 1981, p. 229.)

Giddens is continually interested in the motion of the capitalist system, its time and space distancing, and the role of ideology in cementing the compromise of interests within the social system. The latter is an essential component in reducing the functionalism of social analysis and acknowledging the contingency of human action. Yet the locus of social disenfranchisement determined in the capital - labor relationship returns to the source of Poulantzas' strength, the generation of surplus value which is so opaque in Giddens.

Wallerstein

If Block provides the most specific counterpoint to Poulantzas within U.S. political analysis, then Wallerstein has the hegemonic position vis-a-vis international analysis. Although I tried to show earlier that Poulantzas integrated the international aspect of capitalist development into his concrete analyses, Wallerstein's "world-system" approach initially argued that these regionalist perspectives were unnecessary. Wallerstein's ideas have developed significantly since then, but these early conclusions arose from a basic theoretical element in world-systems analysis, the relationship between economic and political factors.

Essentially Wallerstein argued that there is an underlying economic system determined by the circulation of commodities upon which a separate system of states is engaged. The world-system is capitalist

because all nations participate in world trade, but the competing political systems are independent of this economic determination.

The basic contradiction of the capitalist system is found in the disjuncture of what determines supply and what determines demand. ... World production decisions are made on individual bases World demand is fundamentally determined by a set of preexisting political compromises. (Wallerstein, 1979, p. 168.)

Wallerstein appeared to be saying, at this time, that the tempo and distribution of purchasing power in the world were dominated by the political relations of and within states. Although there is ample evidence to show that the expansion of world capitalism relied on the military weight of the imperialist countries, this would seem to have more effect on the locus of production than consumption, and in neither case is the direction of causality in economic disequilibrium from the political system to the economic system. In other words, wanting to emphasize the political weaknesses of the periphery countries, Wallerstein creates an explanatory scheme which overemphasizes political factors while predicating the reason for his explanations on economic factors.

This emphasis on the circulation of commodities has been roundly criticized by a number of writers, most particularly Brenner, who argue that understanding the dynamic of capitalism requires first of all an understanding of class structures and "the social-productive relations underpinning the accumulation of capital" (Brenner, 1977, p. 27). For these critics, the locus for the dynamic of capitalism lies in the

productivity of labor and the intensity born of the wage-labor relation. Capitalist states were founded on very specific national economic bases, bases which were not reduced in significance by the existence of overseas operations. To understand the operation of states, it is necessary to be clear on their relationship to the internal and external economic dynamic which affects their chances. To emphasize exchange is to make capitalism seem more pervasive as a social system than it is, and at the same time to make it seem less amenable to internal conflict than it is.

In Wallerstein's later Historical Capitalism (1983) there is a greater acceptance of capital accumulation as a driving force in the "non-progress" of the capitalist system. By accepting this, the practical relevance of Wallerstein's approach is increased. In an extended section on the development of the capitalist state Wallerstein highlights the importance of the state in affecting the social division of labor while at the same time being limited as a world system's sovereign.

The modern state was never a completely autonomous political entity. The states developed and were shaped as integral parts of an interstate system Accumulators of capital needed the threat of circumventing their own state-machinery by making alliances with other state-machineries.
(Wallerstein, 1983, pgs. 56 & 58.)

Ironically, Wallerstein also argues that "structural pressures militate against any construction of a world-state" despite the operation of a world economy (Wallerstein, 1983, p. 65). However, it is clear that for

Wallerstein, states exist in reference to each other, rather than as social structures composed of internal relations. Wallerstein stretches the relative autonomy of the state from the economy to near absolute autonomy in terms of its fundamental determination. The global system's pressure to maintain the integrity of nation-states exceeds late capitalism's rationale for a superstate. However this orientation makes understanding the relationship between a country's internal economic dynamic and its state actions almost impossible.

Synthesis

Poulantzas' approach to political analysis was to base investigation on the constituent processes of the capitalist mode of production. This it is apparent that the state is representative of the fractions of civil society, and it reconstitutes these fractions. Under advanced industrial capitalism, the state represents "old" money (historically accumulated surplus) and "new" money (the profits of current productive investment), both "national" and "international" capital, of landowners and capital owners, of small-scale industrial enterprise and multinational conglomerates, and of the many permutations of the wealth-owning and wealth-controlling class of society. From this, people have noticed a certain "pluralism" in Poulantzas' conception of the state, but it is a structured pluralism, a contest of non-equals in non-freely competitive conditions, where only some elements of society are participants.

State policy often amounts to a series of contradictory and temporary measures which, if they express the logic of monopoly capitalism, also reveal the fissures and disarticulations of the state apparatuses, reproducing the contradictions of the power bloc
(Poulantzas, 1978, p. 171.)

Poulantzas' power bloc is more akin to Galbraith's countervailing powers than Dahl's governing plurality, and it is constrained by the relationship of capitalist enterprise to the overall relationships of the capitalist economy and civil society. However the state is more than constrained. Its economic functions are actively enabled (determined) by the capitalist economy, and these structures are not pluralistic.

In a mainstream formulation, we might say the state represents social interests based on their relationship to the economic system. In a private enterprise economy, these relationships are dominated by the ownership of capital. The state acts in favor of those individuals and groups in society most powerful in the economic system but, because of the competitive nature of the capitalist economy, the state must mediate and accommodate different interests in economic policy. The explicitly political nature of macroeconomics should be seen as addressing the specific interests which dominate class relations, even when efforts are maximized to emphasize the separation of economic policy from private interest. The burden of this dissertation is to clarify some of these relationships.

Poulantzas' major contribution to social theory was his unerring emphasis on relating social analysis to the sites of the production and reproduction of surplus value. Wright's contribution is largely heuristic, but not unimportant. His systemic models are developed in this dissertation to delineate relationships of macroeconomic activity, the relationships of the state itself, and the processes of macroeconomic policy formation. Block's contribution is to emphasize the difference between social structures and social practices (i.e. agency), and to highlight the concrete processes by which capital affects state managers. Giddens' contribution is less obvious: the clarification of causation (functionalist versus global) and emphasizing the fragility of actual social relations. Wallerstein's contribution is obvious: the internationalization of production and exchange under capitalism requires a transnationalist perspective. These elements guide the concrete analysis of macroeconomic policy relationships and the following presentation of historical evidence on macroeconomic policy formation in the United States.

CHAPTER 3

THE GOOD, THE BAD, AND THE UGLY: The Development of Macroeconomic Policy

Introduction

This chapter investigates macroeconomic processes and macroeconomic theory. This is about economics, and I use economic language, but this dissertation is ultimately about the public policy process. I begin with this discussion of economics because macroeconomics is referenced through the remaining chapters where the historical record of the macroeconomic policy process is examined.

The macroeconomics literature still is dominated by the Keynesian perspective. Keynes (1935) emphasized disequilibrium processes and the deflationary tendencies of changes in aggregate demand. However Keynes' perspective was not just a theoretical analysis of the tempo of capitalist development. He also observed that the government should intervene in the course of the business cycle to improve a nation's economic performance. This interventionism and its empirical basis is the basic focus of debate over macroeconomic theory and policy today.

The 1976 annual meeting of the American Economic Association was the occasion for two speeches which summarized the uneven status of macroeconomics. The first was the keynote address by Simon Kuznets of Harvard University. Kuznets argued that the tremendous economic growth in the United States involved a combination of technological and economic power, and that the future might be characterized as one of "enormous power, wide responsibilities, and substantial dangers" (Kuznets, 1977, p. 14). The role of economic social science as a contributor to understanding and contributing to the sources of such growth clearly was accepted.

Franco Modigliani of MIT gave the association's Presidential address in an entirely different tenor. "The Monetarist Controversy or, Should We Forsake Stabilization Policies" expressed the deep fissures within the economics profession concerning the sources of macroeconomic instability and the even deeper fissures concerning the appropriate role of government intervention in the economy (Modigliani, 1977). While Modigliani argued that the Keynesian case for stabilization still was valid, that he would have to defend an activist role for the Federal government was a harbinger for the years to come.

A technical dispute amongst the technicians of the capitalist economic system is an unnecessary addition to the reasons for examining the social bonds which preserve the unstable compromise of social class in the United States. However, the "growth experience" since 1969 and

the economic policy innovations of the Reagan Presidency indicate the fruitfulness of a return to first principles in examining macroeconomic policy formation.

This chapter concentrates on the development of theories of macroeconomic performance. The purpose of structural macroeconomic analysis is to identify the relatively enduring social relationships which are consistent with aggregate economic dynamics and which reveal inter-determinancies with the political system. Macroeconomic theory is an abstract representation of structural relations and also a means by which social interest is represented. The development of macroeconomic policy theory, and its subsequent implementation, represents a significant aspect in the social structure of policy formation.

This chapter examines three approaches to the political economy of the business cycle: first is a general review of the business cycle; second is a review of neo-classical macroeconomics; and third is a review of materialist interpretations of economic crisis.

The policy formation processes of the capitalist system are relatively opaque but the actual policies become relatively transparent in retrospect. The significance of macroeconomic policy has been widely acknowledged through history (Cf. Wood, 1976), but it was not until information and economic theory were sufficiently advanced following World War II that enduring social institutions of macroeconomic policy formation were developed to organize ruling conceptions on the manipulation of the business cycle. While some of these institutions

had played an important role in earlier stages of Federal involvement in the economic system (such as the Federal Reserve and the Treasury), conscious macroeconomic intervention marked a significant departure for the capitalist class and the liberal state.

Alan Wolfe argues that the state in the United States and other advanced capitalist countries developed a split image -- one section apparently representative for purposes of legitimation and the other bureaucratically hidden for purposes of efficiency (Wolfe, 1981, p. 184 ff). Historically speaking the "triumph of conservatism" was consolidated and the capitalist state was an active participant in the economic affairs of nations by the early 1900s, as it had been throughout the pre-capitalist and mercantilist stages. Yet most of these functions were relatively passive under early capitalism (such as in "opening" the West, creating a homogeneous currency, and, anachronistically, bailing out Lockheed), compared to today's activist, conscious, and centralized manipulation of national economic aggregates (tax and revenue balances, the money supply, and international exchange) which bears a class stamp that seldom can be linked directly to specific sectoral interests.

The public component of macroeconomic management has been termed the "political business cycle" which is symbolic of the interaction between macroeconomic policy and partisan politics. I would prefer to restrict the association of the political business cycle to the economics of elections, general political support for incumbency, and

legitimation of the economic system. In this way the systemic aspects of macroeconomic policy can be more clearly identified, while recognizing the role of political parties (and thus elections) in such policy. Indeed, as noted by several commentators, the control of macroeconomic policy is too complex and involves too many actors to be identified too closely with the outcome of partisan political contests, no matter that such policy actions are taken for exactly those partisan reasons. (A good example is given by Tufte concerning the timing of Social Security checks in election months [Tufte, 1978, p. 42].)

The essence of a concrete structural analysis of macroeconomic policy formation lies with the identification of economic conditions important to the hegemony of the capitalist class as a political force (and to the standing of the power bloc in particular) and with the uncovering of the mechanisms through which economic policy is directed toward the expanded reproduction of capital. These political actions clearly involve a certain degree of sophistication on the part of the capitalist class vis-a-vis understanding how aggregate economic phenomena occur, but this does not imply that capitalists are macroeconomically optimal in their thinking, or that the state acts entirely as the class conscious agent on behalf of capital.

For example, the once dominant laissez-faire ideology amongst business persons implied a policy of macroeconomic abstention which became redundant with the rise of organized assaults on the political stability of the advanced capitalist state: the "harmonious state" of

the 1920s collapsed into sit-down strikes, general strikes, revolutionary upheavals, and fascist reaction. The (neo)corporatism of subsequent social formations (the assimilation of labor into capitalist political bodies) became the norm of late capitalism, and it is frequently argued that this corporatism plays a significant role in macroeconomic policy determination, especially in social democratic countries (Cf. Przeworski, 1982). However an interventionist macroeconomic policy was nonetheless a significant departure, requiring special bodies of the state. While Wolfe emphasizes the development of new state institutions with repressive features in the "dual state," this process of institutional development is similarly descriptive of the tasks which lay ahead for economic policy managers.

The particular economic crises associated with business cycles have contradictory impacts and the weighing scheme involved in their attempted resolution says a lot about the nature of the particular capitalist state, just as the evolution of these crises speaks to the character of the particular capitalist economy. The phases of the business cycle, and trends in other macroeconomic variables (in particular inflation, interest rates, and exchange rates), affect different segments of the economy at different times and with different intensities. There are effects specific to various industrial sectors, specific to various financial sectors, retail and service sectors, geographic sectors, and national and international segments of the economy. It is reasonable to presume that these very real effects lead

to specific political responses (although not necessarily of systemic significance), and the depth of these effects contributes to the central accounting of macroeconomic policy balance at the level of the state. The business cycle and its disaggregated components are representative of these sectoral factors.

The Business Cycle

Although neoclassical growth theory is the basis for national income policy, essentially it has been unidimensional, utilizing a single dependent variable, Gross National Product, to represent the value generated by the economic system. However the business cycle is the synthesis of a number of separate, but ultimately inter-related, economic processes. As a result, business cycle economics is an uneasy combination of neo-classical growth theory and disaggregated empiricism (Klein, 1983).

In the extended reproduction of the capitalist economy, the influences created by the cyclical elements of the economy are merged through their interaction with the deeper impacts of long-term waves of economic activity, collectively linked to the economic structure itself (endogenously) and to wider social forces, including the state itself. The motion of the business cycle, as shown by its individual components, transposes itself into the political arena by stages related to the problems of accumulation and realization. The sequences

of the business cycle, i.e. the regularities of economic expansions and contractions, provide a means for tracking these interrelationships.

Wesley Mitchell of the National Bureau of Economic Research Inc. (NBER) argued that while conspicuous events almost always were associated with the initial stages of a decline in business fortunes (eg. the oil price boom of the 1970s), such rare events are usually indeterminate (and frequently irrelevant) to changes in economic trajectory. Economic equilibrium, that uneasy balance of disparate enterprises which is the lynchpin of neo-classical economics, is indeed but a moment before a cumulative series of maladjustments continues:

It is some such maladjustment among the various factors in the system of business that brings all seasons of expansion to a close and turns prosperity into crisis. The regularity with which this happens suggests that prosperity itself has other effects than those which tend to sustain and intensify business activity. During the earlier stages of a business revival these effects pass unnoticed; but, though slow in developing, their later growth must be cumulative at a higher rate than the growth of the prosperity-producing factors. (Mitchell, 1941, p. 27.)

The key feature in the downturn occurs at the level of individual businesses -- increases in supplementary costs (rents, interest, etc.) which result from strained capacity and projects for expansion. Their cumulative effect is to create less cost-efficient production and thus limit prospects for continued expansion for the firm.

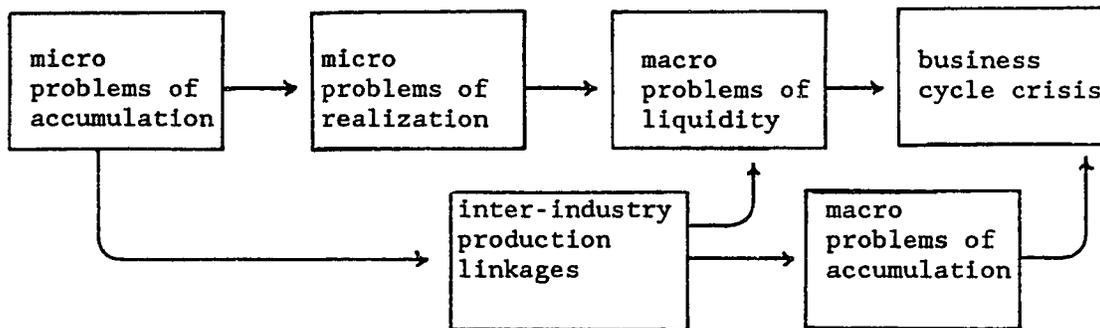
The problems of competitive reaction by business to the maladjustments of production are resolved initially by attempts to pass on higher operating costs to final consumers, but herein the dynamic of

competition and aggregate demand limits the transfer of costs. Additionally, the appearance of overcapacity, caused by collectively unplanned net investment, limits business ability to risk raising prices for fear of declining sales. Thus profit margins shrink and business expectations become enmeshed with reduced prospects for credit (Mitchell, 1941, p. 57).

Loanable funds for productive investment become tight, and the "engine of growth" is stalled. Macro and micro issues become interconnected through the revenues of business and the incomes of workers, and each limitation is passed on through the matrix of industry relations in a multiplier-accelerator manner.

The bonds that unite different enterprises will become channels through which the injury will spread to other enterprises, just as they were recently channels for the spread of prosperity. (Mitchell, 1941, p. 27.)

Diagrammatically I have portrayed this process as an interplay of business-level (micro) problems in production, demand and finance with industry-wide problems of supply, employment, income, and investment (Figure 3.1).



—————> Strongly affects

-----> Partially affects

Figure 3.1. Macroeconomic linkages in the reproduction of the business cycle

The problems of individual businesses stimulate the mobilization of political resources. While adjustment is attempted within the individual economic unit, the macro aspect of these problems makes individual solutions impossible for all but the most flexible and forceful corporations. Pluralism suggests that economic crisis will generate individual and collective claims on the political system, much as other economic and social problems. However, structuralist analysis suggests that insofar as the business cycle is a regular and recurring feature of the capitalist social system, it will have generated institutional arrangements in the political superstructure to allow for a routinized response to the crisis. The extent to which individual firms may manipulate these arrangements is essentially irrelevant to a structural analysis of the business cycle.

The political system must respond to the symptoms of each phase of the business cycle if the political system is to maintain social coherence. To the extent that the cycle is shallow and political reactions are limited, the responsibilities of the state are reduced. However, economic crisis has tended historically to strain the status quo. The National Recovery Act, Civilian Conservation Corps, and other aspects of the New Deal were explicit responses to the deepening "sequences" of the Great Depression, but they were also difficult politically to legitimize and clearly viewed as emergency measures. Post-World War II adoption of Keynesian fine-tuning (the Employment Act of 1946 and subsequent institutional policies) represented a more enduring attempt to shape the state to the long-term needs of capital and to shield the state and capital from the political trauma of ad hoc emergency measures. Both attempts, however, were reflections of the impact of the business cycle on the body politic. In terms of structural determination, the business cycle and its attendant political effects were acting as "constructors" of the state.

While initial sequences of a downturn in the business cycle occur at the microlevel, their cumulative impact occurs at the macro level -- unemployment and the rippling effects of liquidity crises and bankruptcy in particular. Unemployment affects the individual corporations and the economic system as a whole, and political responses to it are varied depending on position of the unemployment in the industrial structure. For example, while Mitchell notes that

business tends to maintain its more productive workers during downturns in manufacturing activity, once laid off, workers can become lost to a business' labor pool, representing a loss in human investment and promising higher labor costs when growth returns. Adequate unemployment benefits may delay job search for such workers and thus these benefits may be supported by employers of skilled labor. While unemployment insurance reduces the political and social impact of mass unemployment (as seen by the remarkably limited combativity of cyclically unemployed labor in the 1970s), at the level of the economic system it provides a neo-corporatist agenda for the state (tying workers' livelihoods to the fiscal fortunes of the state), and reduces the depressive multiplier effect of declining incomes through maintenance of aggregate demand. These latter effects generally are more acceptable to the capitalist class and various elements of the power structure.

Similarly, crises of liquidity (bankruptcy) bring forth disparate responses. There seems to be relatively little institutional sympathy for individual business failures, except at the level of the banking system which is dependent on the good faith of the credit system. The solvency of individual corporations (including banks) has not been assured by the regular institutions of macroeconomic policy, although there are favorable tax advantages in writing off such failures. While bail out schemes and nationalization have been mounted to preserve politically key businesses, these rescues have been considered political weaknesses, obviating the recuperative effects of recessions

on the industrial structure and denigrating the connection between capitalism and liberal democracy's pretensions toward economic justice and equality.

On the other hand, Federal deposit insurance schemes were early seen as essential in preventing the collapse of the monetary system through bank runs, and these schemes appear to have succeeded in maintaining the solvency of the banking system. (It is not clear the extent to which this has reduced the risk or softened the cost of bankruptcy for individual banks.) The failure of major banks continues to occur in financial crisis periods, and bank runs occasionally occur, but neither breeds the widespread panic that was familiar prior to the banking act. Similar circumstances have been extended to the international banking system through IMF and U.S. government insuring schemes, although arguably on a weaker basis. Macroeconomic policy and its state structures are clearly oriented toward the aggregate conditions of capital accumulation and the realization of surplus value, and these concerns may involve the sacrifice of individual firms. This is more than fortuitous and separates liberal democracy from the "state capitalism" of fascism and similar forms of regime.

Appropriate macroeconomic policies are not assured, however. Beyond broad responses to downturns in the business cycle are the political problems of competition between various fractions of capital and the relationship between capital and labor. The manner in which the state is organized to favor sectoral pressure, or bends to these pressures,

claim that instability is a subsidiary issue to primary issues of exploitation, alienation, environmental degradation, international rivalries, and so forth.

Samuelson, a capitalist agnostic, suggests the following:

It is not necessary to subscribe exclusively to one of these two polar types. Perhaps most economists are eclectic and prefer a combination of both. For example, an economist who believed in the reality of waves of different length might plausibly regard the long Kondratieff wave as being primarily exogenous in character Its impact upon the system might involve endogenous, transient cyclical movements, but their movements might take place in a much shorter time period so compared to the full length of the Kondratieff cycle these might be regarded as 'rapidly damped' and be neglected.

On the other hand, the extremely short fluctuations, to the extent that they exist, might be explained almost wholly in endogenous terms These short cycles would perhaps die down were it not for the random and systematic disturbances received from the longer movements of investment. (Samuelson, 1979, p. 340.)

Economic fluctuations are an empirical reality whose social impact requires examination of the causal factors involved. At the heart of almost all models of economic instability are problems of capital accumulation and capacity, on the one hand, and the expanding economic and social impact of multiplied income effects on the other hand. The choice of method for macroeconomic intervention remains one of degree, and a laissez-faire macroeconomic policy remains unlikely.

Neo-classical Analysis

Modigliani's defense of Keynesianism, just twelve years after John Maynard had appeared on the cover of Time magazine (12/31/65) was not based on a comparison of the analytical descriptions of fiscalists and monetarists, but on their differences concerning the role of government in a private enterprise economy. However the argument within macro-economics begins with Keynes' "novel" conclusion: a stable money supply contributes to the instability of a capitalist economy (Modigliani, 1977, p. 1). This basic instability, or disequilibrium, still stands in stark contrast to the optimal properties found for a free market economy in the social welfare equilibriums of microeconomists, of which the economics of the recent Nobel prize winner, DeBreu, is perhaps the most elegant. Keynes made his own point crystal clear:

Our criticism of the accepted classical theory of economics has consisted not so much in finding logical flaws in its analysis as in pointing out that its tacit assumptions are seldom or never satisfied, with the result that it cannot solve the economic problems of the actual world.
(Keynes, 1935, p. 378.)

Keynes suggested that fluctuations in the realization of profits from investment were the primary cause for the cyclical nature of the trade (i.e. business) cycle. The propensity to invest was affected by "precarious" expectations about the future of such investments, and that these expectations varied regularly with liquidity preference (Keynes, 1935, p. 316).

Modigliani did not emphasize this aspect of The General Theory but his conclusion about the professional consensus on macroeconomic policy was nonetheless similar:

The [macroeconomic] instability could be readily counteracted by appropriate stabilization policies. Monetary policy could change the nominal supply of money so as to accommodate the change in real demand results from shocks in aggregate demand. Fiscal policy, through expenditures and taxes, could offset these shocks, making full employment consistent with the initial nominal money stock. In general, both monetary and fiscal policies could be used in combination. But ... fiscal policy was regarded as having some advantages.
(Modigliani, 1977, p. 2.)

Modigliani developed the empirical case for stabilization based on the parameters of the monetarist model and the post-World War II record of the U.S. economy.

The initial monetarist counter-attack to the Keynesian challenge to classical economics came from Friedman's empirical work on the nature of consumption, i.e. the proposal that there was a minimal likelihood of changing consumption patterns based on marginal changes in short-run tax rates. Friedman's celebrated counter policy proposal was for a fixed rate of monetary expansion independent of political control, the precise opposite of Keynes' insight (Friedman, 1959).

Friedman argued that the full employment equilibrium was a "razor edge" in that involuntary unemployment was at worst transient and at best non-existent. The result was that "stabilization policies were bound to prove destabilizing" (Modigliani, 1977, p. 5). Keynesian interventionism was challenged intellectually but the inflation of the

1970s was the final blow to Keynesianism since the Phillips curve (the tradeoff between unemployment and inflation) was severely violated. Friedman's insistence on the importance of the money supply in macroeconomic aggregates was incorporated increasingly as the center piece of national economic policy.

Friedman argued that "fine tuning" the nation's macroeconomy was not only impractical but also inappropriate.

In the United States the revival of belief in the potency of monetary policy was strengthened also by increasing disillusionment with fiscal policy, not so much with its potential to affect aggregate demand as with the practical and political feasibility of so using it. (Friedman, 1968, p. 3.)

However he also argued that monetary policy could not "peg" unemployment below its equilibrium rate. With the U.S. experience of double digit inflation still in the future, he made the prescient comment (based on his Brazilian experience) that "a rising rate of inflation may reduce unemployment, [but] a high rate will not" (Friedman, 1968, p. 11). Finally, he argued that monetary policy was the "stable background" for the economy and that monetary authorities had the responsibility to manage the money supply accordingly.

Modigliani disagreed with Friedman's assessment of the historical record, and could argue that the theoretical issues at stake were limited, but the political weight of monetarist argument was increasing.

The empirical and logical attack on Keynesianism has moved forward so mightily that in 1984 two monetarisms could be identified: the partial equilibrium and more traditionally macroeconomic approach of Friedman and the more conservative and microeconomic full equilibrium approach of the rational expectationists in which the conditions of market exchange were generalized to macroeconomic processes (Hoover, 1984, p. 74 ff).

George Feiwel, in assessing Samuelson's contribution to Keynesian economic thought, notes that the cornerstone of the attack on Keynesian economics came from an explicitly political institution, "the libertarian Chicago school," whose guiding mentor before Friedman was Frank Knight, "scornful of the post-New Deal world" (Feiwel, 1982, p. 217). Feiwel argues that the neo-classical synthesis of Samuelson was an attempt to deal with the general equilibrium aspects of classical microeconomic theory while maintaining the disequilibrium approach of Keynes. In this Samuelson and Keynes were unsuccessful. The micro-macro link also raised distributional issues explicitly, but it too has been an analysis tangential to the ruling politics of the 1970s and 1980s.

Monetarist politics, tied to the efficiency argument of the free market, removes macroeconomic policy from the explicitly political world, i.e. from the world of popular political pressure. The natural

vehicle for such policy is the Federal Reserve which became the bulwark of U.S. macroeconomics during the Carter administration. As Gerald Epstein points out:

Central to understanding the Carter administration's economic policy is a recognition of the degree to which the president deferred to the Federal Reserve in the shaping of that policy. Accepting presidential manipulation of the economy as a framework of analysis misses this outstanding feature of the Carter years. To the extent that anyone was in charge of the national economy, it was not the president, but the Federal Reserve. (Epstein, 1981, p. 142.)

Indeed, the Carter experience is crucial because it represents the connection between liberal Democrats and conservative Republicans in shifting the body of macroeconomic politics from the public forums of fiscal policy to the privileged sites of monetary policy.

The perceived economic failure of Reaganism has reduced dramatically the saliency of monetarism as the hegemonic intellectual perspective. However Reagan effectively excluded professional economics from public participation in policy formation, and an alternative political basis for such policy has not developed. Therefore the economics profession is taking a renewed look at itself as a politically naive discipline (Cf. Rivlin, 1987; Nelson, 1987). Their ability to reinvigorate technical economics as a political entity is dependent partially on future political developments, although changes in economic conditions or a new theoretical synthesis might assist this revitalization. Neo-classical macroeconomic theory continues to dominate the policy framework of the capitalist state.

Politico-economic Models

The pluralist orientation toward macroeconomic instability has been toward the public calculus, i.e. public choice. Frey and Schneider (1982), who were amongst the earliest proponents of politico-economic models, emphasize the relationship of these models to "the economic theory of politics" in which political decisions are made on an individualistic basis similar to microeconomic choice. Models include the election cycle theories of Nordhaus (1975), MacRae (1977), and Tufte (1978), electionist models (Paldam, 1979), and political decision-making models of Downs (1957) and Buchanan (1977).

Edward Tufte's Political Control of the Economy (1978) is probably the most influential study on the interrelationship of politics and aggregate economic performance in the United States. He argues that there are regular and persistent impacts on the economy generated by political life and based on the idea that politicians make economic policy under conditions of political competition. Two cycles exist: a two-year cycle in the growth of real disposable income per capita and a four-year presidential cycle in the unemployment rate (Tufte, 1978, p. 27).

Tufte suggests that politicians have a theory about the behavior of the electorate in which economic movements before the election can shift the balance between incumbency and challenger. The short-term policy instruments amenable to such manipulation are transfer programs

and taxes, although both are subject to Congressional influence (Tufte, 1978, p. 57). Tufte found that a 1% change in real disposable income in the year before an election would change the expected vote by 6/10% (Tufte, 1978, p. 15 ff). This change is not great, but it is sufficiently strong so that only Eisenhower and Carter failed to accelerate income prior to elections, with the impact on Carter considered significant (Silk, 1984, p. 123 ff).

Many of these models are largely quantitative, although not all are formally mathematical. The overall logic of these models is that a government's re-election is dependent upon the perception of the voters that the government is meeting their economic needs. There are thus two functions to be examined: popularity of elected officials with the voters, and government policy. These functions are inter-related by the relationship of economic and political agents.

Although apparently structuralist, this systems model is in fact individualistic, emphasizing the parallel between the equilibrating forces of a competitive market and the decisions of the political system. The result is a symbiotic relationship:

In an expanding economy political forces accompany the market mechanism, which in a democracy remove disequilibria and set the preconditions of long-term development.
(Frey, 1978, p. 113.)

Nordhaus (1975) looks at the decision calculus from the opposite perspective, as a generalized social welfare function in which unemployment plays a major aggregate policy role. He is particularly

interested in the behavior of voters and suggests that short-term satisfaction ("myopia") through higher employment leads to sub-optimal long-term public investment. To the contrary, MacRae (1977) argues that voters are not myopic and are able to develop long-term strategic perceptions based on identification with their long-term interests. Later MacRae (1981) identifies the Eisenhower administration as devoid of a political business cycle and the Kennedy-Johnson administration as relatively myopic [i.e. Kennedy's economic policy acted as if voters were short-sighted], although their administration turned more strategic under Johnson. The strategic voting hypothesis is most strongly supported in the Nixon-Ford administration. MacRae concludes that "there is only limited evidence in the United States of a potential for a politically motivated business cycle" (MacRae, 1981, p. 184).

These theories are pluralist and there is much to be said of pluralism (or polyarchy) as a theory of ruling class decision making which is the public calculus of the dominant class fractions. Lindblom argues that the policy-agendas of liberal democracy fail to include issues of economic structure since "there exists no pluralism of opinions or of political initiatives sufficient to bring them to the agenda" (Lindblom, 1983, p. 384). The polyarchy still has substantial power to restrict economic issues from "appropriate" public discourse.

These politico-economic models are efforts to integrate economic phenomena into political science, but they have not yet become

economically disaggregated. This limits their application and it is not at all certain that they will overcome the intellectual separation of polity and economics.

Materialist Alternatives

Critique of modern macroeconomics has arisen from a range of radical perspectives. A number of these are oriented toward the role of labor struggle in economic cycles and in the processes of policy formation. Others are more traditionally Marxist in their approach, emphasizing the relationship of capital's general tendencies to macro-economic events and policy. This section reviews these alternatives.

The work of Boddy and Crotty (1975) lies between the orientation of the pluralist models of politico-economic behavior and formal Marxist models. Although Attewell (1984) categorizes their work as a profit squeeze theory of economic crisis, the class struggle orientation of their argument suggests a broadening of the terms of reference of economic cycle analysis from the technical requirements for capital accumulation to the politics of labor. Boddy and Crotty viewed economic cycles as phases of labor employment expansion followed by orchestrated reactions on the part of the capitalist state.

The principal element in Boddy and Crotty's theory of the business cycle is the erosion of profits which results from class conflict between workers and capital during the expansion phase of the business cycle.

The recession is a necessary condition for achieving the highly profitable first phase of the expansion and for avoiding the highly unprofitable consequences of sustained full employment. Historically, recessions have also provided the political context within which the state has granted new fiscal incentives to capital. (Boddy, 1975, p. 10.)

Despite a number of limitations with their formulation, this perspective represented an important step in politicizing economic analysis of the business cycle at the level of industry.

Several years later Przeworski and Wallerstein (1982) took up these arguments (although without reference to Boddy and Crotty). They argue that class conflict is not endemic under capitalism and that classical notions of individual self-interest maximization can lead to class compromise. The effect of the expression of these interests is the development of a class neutral state which "institutionalizes, coordinates, and enforces compromises reached by a class coalition that encompasses both workers and capitalists" (Przeworski, 1982, p. 215). Where Boddy and Crotty found the post-World War II U.S. historical record as one of complete capitalist dominance over macroeconomic policy, Przeworski and Wallerstein found the entire history of trade unionism as symptomatic of class compromise based on the necessity of profit in a capitalist economy.

The combination of private ownership of the instruments of production with representative political institutions based on widespread suffrage constitutes a compromise between workers, who consent to the private appropriation of profit by owners of capital, and capitalists, who accept the democratic institutions through which workers can make effective claims for an improvement of their material conditions. (Przeworski, 1982, p. 215.)

The primary vehicle for this compromise is the relationship between investment and employment, and the confidence on the part of the working class that sufficient profit will be reinvested so as to assure employment. The location for this compromise is rather vague in Przeworski and Wallerstein although they seem to imply that it occurs not on the aggregate level (at which Boddy and Crotty view the dominant perspective of class struggle) but at the level of the firm.

The only conceivable reason for workers to consent voluntarily not to claim the capital stock is to treat current profits as a form of workers delegated investment. [emphasis added] (Przeworski, 1982, p. 217.)

Przeworski and Wallerstein argue that Marx's assumption of irreconcilable differences between labor and capital led to a problematic reproduction of the entire capitalist system. They argue that in the instrumentalism of Miliband and in the structuralism of Poulantzas, the composition of the state is external to class relations, which is necessary to the reproduction of capitalism. To the contrary, Przeworski and Wallerstein say, the state is not a "ready to wear" institution but is the center of class conflict (Przeworski, 1982, p. 235).

This view of the state is profoundly reassuring for an analysis of the importance of macroeconomic policy, but it is incorrect on two counts. Przeworski and Wallerstein are correct to identify the functionalist aspects of Miliband and Poulantzas, but they falsely separate class struggle from these perspectives. More importantly, however, the source of their "compromise" is the distribution of social product which fails to account for the competition between sectors of capital and the dynamic of different segments of economic society. Assuring that people have food for survival has always been a major factor in human behavior, and the lack of an employed future is clearly an aspect to the failures of compromise in class conflict. Yet over-capitalization and problems in realization are carefully protected by the capitalist state, not because the state stands to defend private property in the abstract or because of the internal composition of the state as a site of class struggle, but because the private appropriation of surplus value is the capitalist system and the capitalist state is a part of that process. The state functions neither for the private interests of capital nor as the agent of class compromise; the capitalist state is constituted by the relations of private capital such that it functions! This constitution is the subject of a later discussion.

In the Marxist analysis of economic crisis, many of the features identified in the earlier discussion of business cycles and the previous discussion of class conflict models are seen, if with a

different light. Although Marx emphasizes the analysis of economic crises in Volume III of Capital ("The Process of Capitalist Production as a Whole"), the roots of crisis are raised from the beginning of Volume I ("The Process of Production of Capital"). In brief, the potential for crisis lies in the initial dichotomy of use and exchange value, which leads the capitalist to the problem of realization and the problem of exploitation, and over time, to that of accumulation itself (Cf. Mandel, 1976, 1978a, 1981). The historical tendency for capitalist instability (and particularly in downturns) arises from the relatively self-evident (if hotly debated) proposition that an increase in the capital intensity of production (an increase in the organic composition of capital, c/v) reduces the rate of profit in value terms ($s / c+v$), if the rate of exploitation (s/v , or (roughly) productivity) is maintained. For the capitalist system, reducing the value of labor power in commodities is a key historical task while increasing the rate at which labor produces value is the central problem of microeconomics.

The second problem concerns the role of time in the process of production and realization -- the turnover rate of capital in realizing profit on invested capital and in realizing value from produced goods. The first bears strongly on the fragmented nature of capitalist production (socially unplanned) and the fear of obsolescence by individual firms, and the second reflects the macro problem of aggregate demand (the declining value of labor power increases the potential for a higher rate of exploitation but reduces the exchange value available at a macro level for final products).

The theory of crisis involves a multi-causal network of factors related to these considerations: the easy realization of surplus value during expansion leads to an investment boom and a disproportionality between Department I (producer goods) and Department II (consumer goods). This bunching of investment creates bottlenecks and thus increases costs (and prices) and amounts to an increase in the organic composition of labor (seldom do we find enterprises employing new labor-intensive technology). These features are then "realized" as crises of overproduction (i.e. overproduction of exchange value) and the ability to reinvest surplus value declines, which is indeed a crisis of realization. Prices are then reduced (if slowly and relatively) and competition intensifies (Mandel, 1981, p. 76 ff). Crises within manufacturing spread through the crisis of realization to subsidiary sectors (i.e. services) and the downturn is generalized. These processes are quite straightforward, although the interpretation of their dynamic is complex. Marx, like Poulantzas, clarified the analysis of economic dynamics by concentrating on the fundamental prerequisites of capital's reproduction.

The re-interpretation of mid-19th Century Marxism into the latter half of the 20th Century has been a major intellectual and political challenge. Political economists have referred to the "capitalist crisis of reproduction" as the business cycle, as a downturn in the long wave of economic growth, and as a break in the social legitimation of the capitalist system. But if the capitalist system is continually in

disequilibrium, then crisis must be reserved for a particular point in that disequilibrium, e.g. periods of sharp increases in unemployment brought about by cyclical declines in production. Britain has been in perennial "crisis" since the end of World War II, and this is a crisis of industrial structure as well as the periodic crises of political legitimation, world economic integration, and business cycle. The ability of the capitalist state to respond to different types of crisis is an important feature in its composition.

At the center of crisis theory is a dispute over the theory of the falling rate of profit.

What lies behind the crumbling of profit margins since 1966? Is the decline a statistical artifact? Was labor able to increase its share by aggressive bargaining? Or does the declining share of profits portend the euthanasia of the capitalist class, and indeed of capitalism itself? (Nordhaus, 1974, p. 170.)

Ironically, while empirical questions remain about the actual performance of profit, few critics argue against the tendency of the rate of profit to fall (the critics emphasize its tendential likelihood) and it is this tendency which lies at the center of Marxist analysis (Cf. Mattick, 1981).

The U.S. intellectuals' penchant for empiricism, while appropriately linking investigation to quantitative reality, has meant little study of the long-term theoretical implications of particular ways of viewing each variant of capitalist crisis. It is almost as if

the power of advanced industrial capitalism and its ability to absorb crisis makes transitional theory irrelevant. Only the structuralist investigations of Bowles and Gintis (1982), Bowles, Gordon, and Weisskopf (1983), and Bluestone and Harrison (1982) contain transitional programs linking their economic analysis to a long-term political program.

Central to an empirical orientation is Sherman (1979) who identifies three major components in the deterioration of the business situation as an economic decline sets in: declining profit share, reduced output capital ratio; and falling capacity utilization. Clearly each can contribute to a fall in the rate of profit, but the essential feature of Sherman's analysis is that it emphasizes the components of this decline.

Sherman considers the rising organic composition of capital argument (whereby fixed capital becomes a larger and larger component of production) a long-term theory irrelevant to short-term cyclical phenomena. However, he also finds that "In late expansion ... the rate of profit is usually decreased by a fall in capacity utilization..." (Sherman, 1979, p. 18). He concludes that the wage-push theories make empirical sense in the timing of the business cycle, but he argues quite appropriately that lower wages also reduce aggregate demand and reduce the capability of capitalists to realize surplus value embodied in current production, inventories, and sunk investment. Finally, Sherman rejects underconsumptionism on the basis that it is a one-sided

approach to the problem of realization. He suggests that "A synthesis of the theories finds problems in the late expansion of both rising costs and lack of demand" (Sherman, 1979, p. 3).

David Yaffe has argued that models such as Sherman's are essentially Keynesian:

It is not the antagonism for the share of net product that underlies the contradictions of capitalist production, as the radical Ricardians would have it. It is the constant requirement to increase the exploitation of labour as investment takes place in order that sufficient profits can be produced to compensate for the tendency of the rate of profit to fall. (Yaffe, 1973b, p.49.)

These arguments appear in the conjunctural and historical materialist analyses of contemporary capitalism. However, although writers such as Bowles and O'Connor are interested in the technical aspects of crisis theory, they tend to embed theory within sets of historical and social analysis which provides the materialist background for their central conceptions. Bowles and Gintis (1982) inter-wove an analysis of the process of accumulation with a conception of a contradictory liberal democratic state. Campen and MacEwan (1982) identified conservative approaches to macroeconomic management. O'Connor (1973, 1984) developed his dichotomy of social investment and legitimation against the needs of private accumulation into attention to the peculiar role of individualism in economic and social reproduction in the United States.

One of the problems in materialist analysis is the relationship between what is considered short-term economic crisis and longer term structural trends. Bowles and Gintis (1982) took a skeptical look at existing Marxist analyses of the crisis of accumulation in the late 20th century. Their central tenet was that the state, far from acting to unify corporate interests, supports social relations (liberal democracy) which are contradictory to the needs of capital accumulation. Bowles and Gintis saw the liberal state as "blocking" the dynamic of the conflict between labor and capital, and as such, impeding the distribution of income, the aggregate impact of unemployment, and labor productivity. They stated:

The particular historical conjuncture underlying the successful joint reproduction of liberal democracy and capitalism in the United States during the postwar era may be described as an accord between capital and labor. This accord granted workers the possibility of real distributional gains, while at the same time ensuring the continued dominance of capital within the site of capitalist production.
(Bowles, 1982, p. 65.)

The social gains embodied in poverty and anti-discrimination policy were regarded as important components of Keynesian macroeconomics but components which were carried into contradictory effects in the factories and workplaces.

O'Connor extended his early examination of the roots of fiscal policy into a "totalizing" synthesis of economic, sociological and political theory in Accumulation Crisis (1984). He has an unusually agnostic attitude toward competing Marxist theories of crisis and has

emphasized the peculiarities of the ideology of individualism in the United States as a source of contradiction in social and economic reproduction. Using arguments which initially were central to the domestic labor debates of the 1970s, in which the role of the household in the reproduction of wage labor was analyzed, O'Connor argues that the "nationalization" of these conditions in the second half of the twentieth century has created a contradiction with the privatized nature of consumption and legitimate political activity. He echoes the themes of Bowles and Gintis but adds working class sources of social integration as additional elements in the contradictions facing advanced capitalism.

Individualist ideologies and practices diffused throughout capitalist production, distribution, exchange, and consumption, as well as culture and politics, are the social cement of U.S. late capitalism. However, the social psychological fits between individuals and the effective internationalization of work roles, the establishment of consumer statuses, and forms of voter participation are not airtight. ... Reified social existence and social change in class society ... is in reality a world out of control. (O'Connor, 1984, p. 21.)

O'Connor argues that the norms of working class socialization are sufficiently strong to confuse state initiatives based on a disembodied laboring class. O'Connor cites Poulantzas' idea of "modes of isolation" to argue that as class relations were fragmented into client relations, individual relationships were shattered and social relations failed (O'Connor, 1984, p. 198 fn).

The general result was the failure of both accumulation-system rationality and legitimation-social rationality from the standpoint of both capital and the working class.... (O'Connor, 1984, p. 200.)

Keynesian economic policy, by expanding the scope of the state in the reproduction of labor, began to limit the scope of private accumulation and began to extend the scope of politicized social issues. The result was that "the state was constantly trying to undo with one hand what it had done with the other" (O'Connor, 1984, p. 225). Ideological support for neo-individualism in the 1980s, a combination of neo-liberalism and neo-conservatism, is an attempt to break the relationship between the crisis of accumulation and politics. "Crises" become the means of legitimation to changes in the political and economic systems (O'Connor, 1984, p. 226).

The work of Ernest Mandel acts as a synoptic, materialist point of view. In Long Waves of Capitalist Development, Mandel (1978b) argued that long-term swings in real economic aggregates were not endogenous mechanisms of the economy but were articulations of long-term trends in the rate of profit and shorter-term business cycle phenomena.

Although the internal logic of capitalist laws of motion can explain the cumulative nature of each long wave, once it is initiated, and although it can also explain the transition from an expansionist wave to a stagnating long wave, it cannot explain the turn from the latter to the former. ... Radical changes in the overall social and geographic environment in which the capitalist mode of production operates in turn detonate, so to speak, radical upheavals in the basic variables of capitalist growth. (Mandel, 1978b, p. 21.)

Mandel argues that social forces and decisions concerning the trajectory of the economy, particularly on the international scale, are relatively independent of the general process of capital accumulation (Mandel, 1978b, p. 54). He criticizes Kozo Uno for suggesting an endogeneity in economic policy decisions, although this criticism seems to be a departure from Mandel's earlier views of the state as a "synthesis" of private articulations and the technical administrative apparatus through a "symbiosis" of joint committees (Mandel, 1975b, p. 491).

Mandel's current conception of the state appears to be one of a social structure embedded in an apparently static historical relationship to the economy and functionally independent of conjunctural policy. State policy is a battled terrain of conflicting class interests within limits imposed by the defense of capitalism in general. This seems to be an unfortunate limitation on the nature of structural relationships of economy and society and at odds with Mandel's emphasis on the importance of geographic and sectoral shifts in capital's composition (Mandel, 1978b, p. 89).

Conclusion

This chapter provides a key step in the development of a structuralist argument concerning the expanded reproduction of capital and the formation of macroeconomic policy for three basic reasons. First, the description of the business cycle sets the stage for an

historical discussion of macroeconomic policy determination. Second, neo-classical macroeconomic theory informs the policy making process and incorporates within the realm of capital different perspectives toward the role of government in the business cycle. Third, the alternative analyses represent opposing conceptions about the nature of the relationship between capital and labor, and they provide a sketch of a structuralist theory of macroeconomic political crisis. The historical record of post-World War II development, as presented in the following chapters, is prelude to the determination of an overall model of structural macroeconomic policy determination.

CHAPTER 4

CASABLANCA: Kennedy's Initiation of Liberal Macroeconomic Policy

Introduction

The 1000 days of the Kennedy administration, followed by the five years of Lyndon Johnson's Great Society, marked the highpoint of liberal macroeconomic policy in the United States. The expansionary fiscal policy incorporated in the 1964 tax cut was considered a key event in national attempts to promote economic growth through control of aggregate demand in the United States. However the ideological acceptance of this policy point of view was short-lived. This chapter outlines macroeconomic activity and policy in the United States from the end of World War II through the Johnson presidency. Furthermore, it connects the fiscal policy initiatives of the Kennedy period to the structural analysis perspective of this dissertation. The predominant theme to this chapter is the tension between the developing macroeconomic policy needs of advanced industrial capital in the post-World War II era and the ideological differences within the ruling elite of the United States concerning the role of government in the economy.

This is the same tension which informed the debate within the economics profession over Keynesian and monetarist approaches to macroeconomic theory as discussed in the previous chapter, except here it is raised to the level of policy implementation.

The Kennedy administration fostered the image of a young President promoting "new ideas" against the old style "fiscal drag" of the Eisenhower presidency. Yet without the veil of rhetoric, the fiscal policy ideas of Kennedy and Johnson frequently appear little different from those of their predecessors and partisan competitors. Indeed, Richard Nixon, who by 1971 declared us all Keynesians, has been proposed by one of his economic advisors as holding a better brief for activist fiscal policy (Cf. Stein, 1969). The history of this period indicates how difficult it is to extricate actual fiscal policy from incremental Federal budgeting and tax policy, and from an administration's ideological pronouncements designed to support such incrementalism. To a large extent this occurred because of the close political relationship between labor and capital in the United States. Whereas Keynesianism would have a "radical" interpretation in some countries, in the United States this character was quickly neutralized and the interventionism of macroeconomic policy was tailored to the needs of capital.

Economic policy represents the conjunction of many processes: theory, measurement, ideology, cyclical phenomena, political fortune, etc. The arrival of a widely heralded policy "gestalt" appears to

congeal thinking around the precise political moment associated with that policy. Examples are the New Deal, the Kennedy and Johnson tax cuts, and Reaganomics. Yet as distinctive as these macroeconomic events appeared in their time, divorced from the political record of their adoption, these policies often appear to be transparent progressions in the development of democratic pluralism. However, I believe these policies are more than a linear progression of political modification of an established doctrine. These policy directions correspond to basic changes in the underlying economic conditions and political balances of late industrial capitalism.

The United States has gone through four periods of significant macroeconomic change in the twentieth Century. The first involved the creation of the Federal Reserve system and the establishment of a national money supply in 1913. The second was the New Deal and the development of the welfare state in the 1930s. The third was the Kennedy and Johnson administrations' fiscal policy innovations, the explicit incorporation of deficit financing into economic policy. The fourth, if fulfilled, is the Reagan administration's retrenchment toward increasing the rate of labor productivity and the fundamental rate of profit. Similar periods exist in the other OECD countries. Japan and West Germany had periods of state-labor-capital coalition imposed upon them following World War II, Great Britain developed a social democratic establishment and France developed a strong

"regulatory" state in opposition to its confrontational popular politics. Today, Great Britain is leading toward capitalist retrenchment through the Thatcher regime.

What is particularly notable about these periods as a whole is the infrequency with which the relationship between the economic policy parameters of the political system changes. The stability of the U.S. political system in the face of quite profound economic change has been the subject of considerable comment (Cf. Katznelson, 1978) and some consternation. These periods represent major ideological shifts on the part of the ruling elite, within a constancy of support for industrial capitalism. The political system in the United States has been able to accommodate a wide range of economic change, and the post-World War II period may be the clearest example of this dialectic of change and constancy.

Structural political analysis comes from a perspective of regime realignment, significant shifts in political and economic relations, separate from the exigencies of short-term regime manipulation. The eclectic orientation of Bowles, Gordon and Weisskopf (1983) may be more amenable to the problems of macroeconomic adjustment (regime manipulation) than structural analysis which has been developed as a long-term perspective. Macroeconomic policy consists of relatively small adjustments to the business cycle. As such, much of the controversy over fiscal and monetary policy in the United States since 1960 involves

aspects of one policy period. They incorporate aspects of one phase of the political business cycle, the post-World War II growth phase of late corporate capitalism.

The historical analysis of this chapter is not complete, since its primary purpose is to develop a theoretical perspective, but it should be sufficiently detailed to inform the analysis. This chapter begins with a chronology of significant economic events and macroeconomic policies in the post-World War II period through the Johnson administration. It follows with an examination of the popular and critical interpretations of the macroeconomic record of the period, and it concludes with a re-examination of structural perspectives on macroeconomic policy.

Central to the argument of this chapter is the historical record of this period. The chapter uses information from three perspectives in order to examine post-World War II macroeconomic history: ex post economic interpretation, chronicles by economic advisers, and process-oriented histories and revisionist political economies. These works form the focus of this chapter's own interpretation of macroeconomic policy development.

Chronology of Macroeconomic Policy Development

The forces underlying the macroeconomic policy formation process of the early 1960s are depicted in Figure 4.1. Despite the initial impetus of post-World War II spending and the overall record of growth

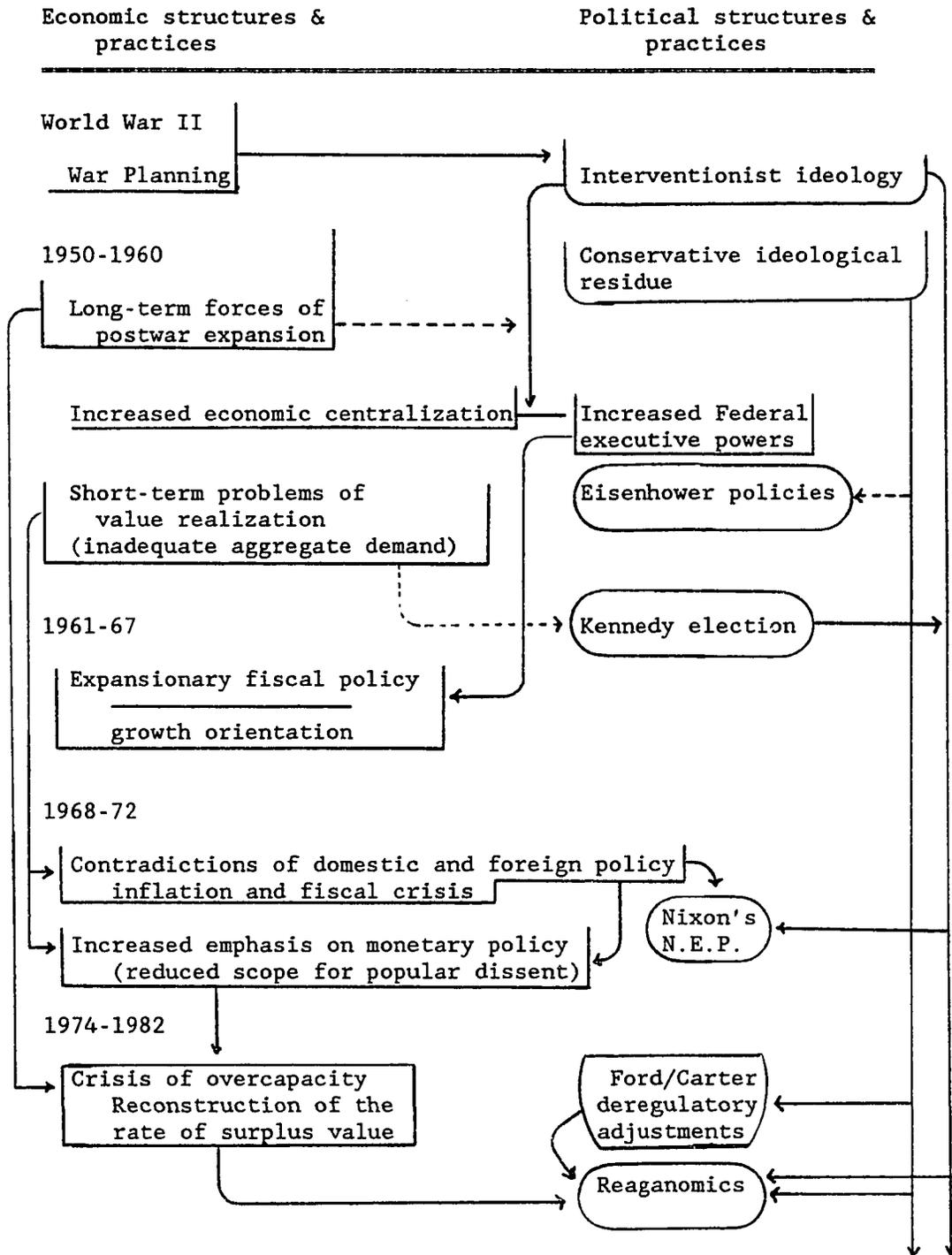


Figure 4.1. Structural elements in post-World War II U.S. macroeconomy

in real GNP, slumps in the realization potential of the economy persisted in the 1950s as the income received by the labor force did not correspond to the expansion of productive capacity in mass production goods. As such, there was an independent economic pressure toward a change in fiscal policy which would correspond to the entire wartime and postwar growth in the size of the Federal government. Kennedy's 1962 tax credit provided incentives for increased capitalization but not for the valorization of surplus value. As such, the 1964 tax cuts were required to realize the potential profits provided in the 1961-63 recovery from the 1958-59 recession. The two tax cuts helped extend the duration and breadth of the post-World War II forces of expanded accumulation in the United States. The reduction in cyclical behavior and the growth spurt (1961-68) reduced competition for the share of national income going to the different classes and to different components of capital. Eventually, the Vietnam war expenditures contributed to inflation which led to a reduced efficacy for deficit financing. The ultimate demise of this period of expansion occurred with the recessions of 1969 and 1974 at which time over-capacity and a diminished base for fiscal maneuver shifted policy orientations toward Thatcherism and Reaganism.

--Immediate post-World War II macroeconomy

The United States was rewarded for its wartime success by attaining economic and political ascendancy, an appropriate rebuke to earlier failings symbolized by the Great Depression and the League of Nations.

As a result, the Kennedy, Johnson, and Nixon administrations were marked with the optimism of governments involved in the promotion of expanding economic wealth. Kennedy, in particular, a participant in the United States successes of World War II, represented this ascendancy with his national commitment to massively increasing national production and world hegemony.

Production during World War II, having been directed away from civilian consumption by rationing and toward military production through quasi-national planning bodies, represented an uncertain (although apparently dramatic) recovery from the Great Depression. Industrial output in the United States had more than doubled the pre-war level by 1943. Gross national product (GNP) in 1945 was \$214 billion, up from \$91 billion in 1939 (\$117 billion in 1945 inflation-adjusted dollars).¹ Wartime profits were substantial (\$23.8 billion in 1943, 12% of GNP), particularly in light of the pre-war recession. Women were integrated into the workforce (with up to 35% percent participation in the civilian labor force), and high technology had been integrated with advanced corporate management to create world-scale industrial and commercial power.

¹ National income and other economic indicators are taken from various issues of the Survey of Current Business prepared by the U.S. Dept of Commerce. Rates of change are calculated from this data. Most nominal values are converted into "real" (inflation-adjusted values) with the indicated base year.

Reconversion of the wartime economy started even before V-J day (September 2, 1945) and continued through 1948. Not surprisingly, real output fell for the years 1945-47, although nominal GNP only fell in 1946 (Figure 4.2). Wartime levels of real GNP were regained in 1951. The effect in the United States (as opposed to Great Britain and France) was to return complete control of economic events to private capital. Investment in producer durable equipment more than doubled from 1945 to 1947.

Economic planners during World War II foresaw continued inflation in the postwar period with a fear of a return to depressed levels of production. Wage increases in the manufacturing sector averaged 17% in 1945, and the Consumer Price Index (CPI) rose by almost one third from 1945 to 1948 as price controls were lifted. There was a "store of quick and near money" available for consumer expenditures (Freeman, 1960b, p. 57). Thus, despite the immediate postwar slump, a steep decline in production and income was avoided. Probably the major reason for the economy's ability to absorb the drop in military production and the return of soldiers to the civilian economy was that wartime savings bonds and veteran's benefits made possible a postwar consumer spending boom and that wartime profits made possible a parallel investment in new technology production. The consumer spending boom was accompanied by the G.I. bill's education provision and the "baby boom" in which women returned to the household (labor force participation fell 5%) and reduced the possibility of socially disruptive unemployment (6% in

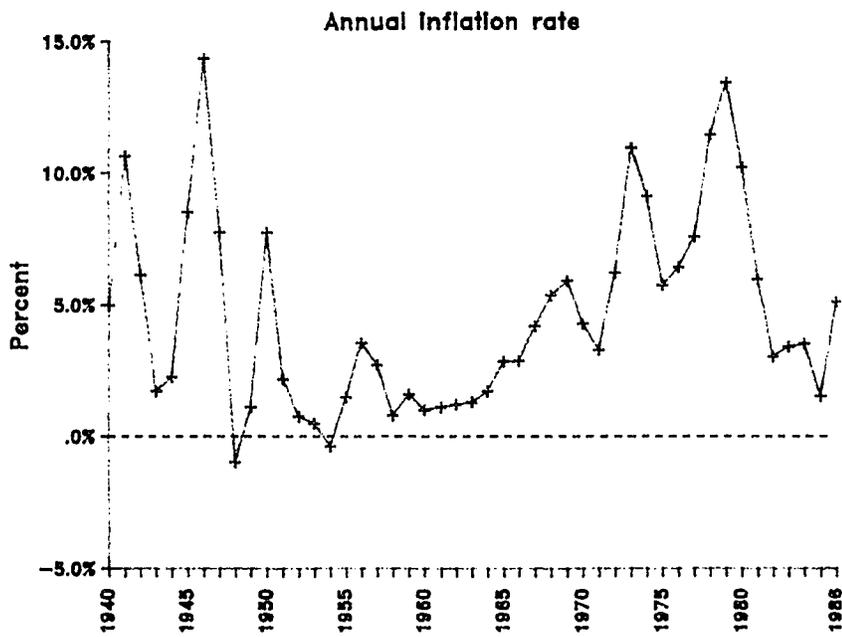
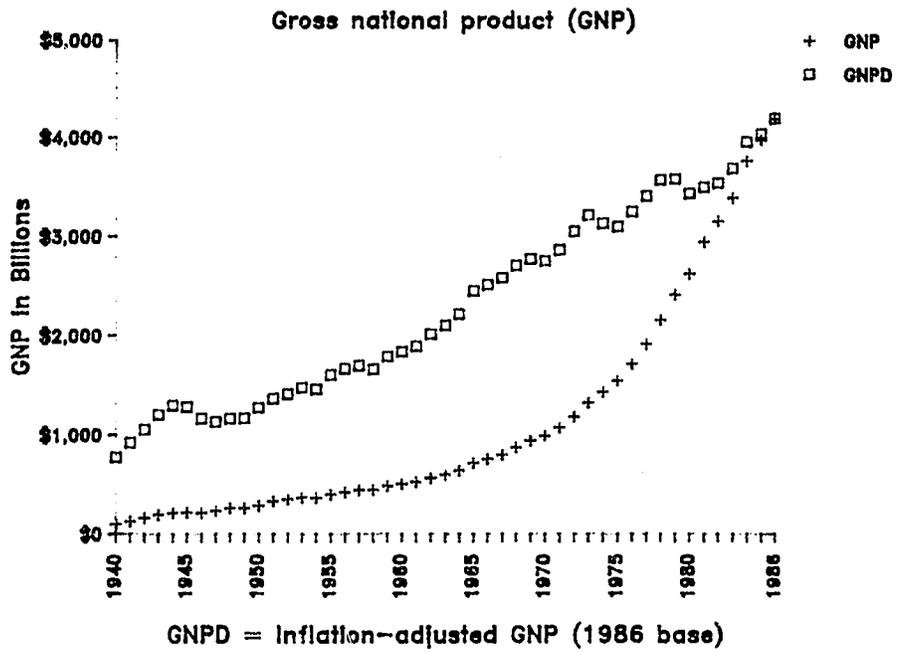


Figure 4.2. U.S. growth and inflation, 1940-86.

1950), compared to the post-World War I era. Consumer spending soared with expenditures on consumer durables doubling from 1945 to 1946 and doubling again by 1950. These conditions would have powerful macro-economic policy implications which carried through to the Kennedy and Johnson era.

The mildness of this decline [1948] had an important influence on monetary policy. Economists, bankers, business leaders, and legislators began to think that perhaps the built-in stabilizers [of previously enacted macroeconomic policy] had been strong enough to protect the economy from the onslaught of severe depression. Stagnation views receded into the background. Fears that the use of the monetary weapon might bring on a slump were dissipated. It was a change in the climate of opinion favorable to a bolder use of monetary policy. (Freeman, 1960b, p. 67.)

It is useful to realize that the New Deal, and in particular the unemployment compensation program, had already made a fundamental shift in the U.S. macro economy. In periods of economic downturn, the aggregate impact of unemployment and falling real incomes was muted by the increased flow of transfer funds, termed "automatic stabilizers." However this also created a tendency toward budget deficits in recession years that would be noticeable in the Truman and Eisenhower years.

Labor was restive and had been during the war. Unions had been excluded from the war production boards (which proved so valuable to major manufacturing firms) but were compensated by the union shop on government contracts (Jezer, 1982). Union membership increased by 1 million a year during the war and wage-price controls set the stage for

postwar economic demands (Siegel, 1960). 1946 was a record year for strikes. However, labor was also politically bound by its attachment to the Democratic Party and to bipartisan politics in general. Wartime labor negotiations had initiated a change in labor-management relations, although this would take two decades to fully mature.

Efforts at curbing inflation and imposing a lid on wages ... gave an impetus to wage structure manipulations, an increasing interest in such techniques as job evaluation, and the spread of "fringe" benefits. (Siegel, 1960, p. 201.)

As Daniel Bell, labor editor for Fortune at the time said, labor had returned to Comperism instead of social planning unionism (Siegel, 1960, p. 203). The CIO purged the unions of Communist party members in 1950 and merged with the AFL in 1955. The suppressive effects of the Taft-Hartley Act of 1947 contributed to a political realignment of labor, as did the rising incomes and great expectations spawned by World War II.

The first major fiscal policy event of the post-World War II period was the Employment Act of 1946. Its passage (and transition from the Full Employment Bill of 1945) was immortalized in Congress Makes a Law by Stephen Bailey (1950). Even in its more limited final form the bill was attacked by the conservative press (which included the New York Times and the Wall Street Journal) as promoting deficit financing (Bailey, 1950, p. 55). Postwar economic policy incorporated aspects of New Deal ideology but to a limited degree. Skocpol argues that as deep as the depression was, it exerted no fundamental threat to U.S.

capital. The political weakness of the working class and the accommodative nature of the Democratic Party made it possible for Roosevelt to turn away from institutionalizing the New Deal's social democratic aspects despite what might have been viewed as a mandate to do so by his sweeping re-election in 1936 (Skocpol, 1980, p. 193). The result was continued macroeconomic passivity on the part of the Federal government.

Balanced budgets continued to be the norm, ideologically and practically. As Lewis pointed out, "Only in brief periods near the cyclical troughs has opposition been relaxed to deliberate additions to the passive budget deficits that inevitably accompany recession" (Lewis, 1962, p. 275). The rhetoric of full employment was put in place by the Employment Act of 1946 but the machinery for its sustained accomplishment was not. Budget deficits were viewed as the mistakes of inadequate revenue projections (due to lower income tax collections and increased transfer payments during recessions).

The major monetary policy event of the period was the 1951 Accord between the U.S. Treasury and the Board of Governors of the Federal Reserve. This agreement effectively removed the Treasury from monetary policy formation and the Federal Reserve began its dictation of long-term policy directions. To an extent the Accord represented a more explicit shift toward interventionist macroeconomic policy than the 1946 Employment Act because the former acknowledged the importance of centralized control over important macroeconomic aggregates, in this

case the money supply and interest rates, independent of the specific financing requirements of the Federal budget (underwritten by the Treasury). Of course this centralization was well within the wishes and interests of large corporate financial capital, a factor which lingers today in attempts to reform the Federal Reserve. (Cf. F.I.N.E. hearings, U.S. House, 1976.) On the other hand, the Accord removed monetary policy from conjunctural political control, a situation recently lamented by politically-oriented mainstream economists (Cf. Rivlin, 1987).

Internationally, monetary stability was to be protected by the Bretton Woods agreements of 1944 which set fixed currency exchange rates and facilitated the growth of U.S. exports. This was complemented by U.S. guarantees of international credit through the International Monetary Fund and the postwar reconstruction of world trade (and capitalist accumulation) through the Marshall Plan and the World Bank.

The Eisenhower administration's greatest economic fears were inflation and strikes, and economic policy was designed to offset both. Business Week commented in January 1960 that the Federal Reserve was willing to "risk nipping a few points off the top of the boom to help prevent a bust [and rising inflation]" and that, as result of the inflationary pressures created by the steelworkers' wage settlement, "each businessman to keep his own shop in order [to beat basic inflationary pressures]" (Business Week, 1/9/60, p. 29). The auto strike of 1946 and the steel strike of 1959 were sufficient to suggest

to management that a recomposition of the rate of surplus value (i.e. productivity) was not going to be taken without capital investment in labor-saving technology.

Ironically, the Consumer Price Index rose by less than 2% in 1960 and by less than 12% during the eight years of the Eisenhower administration. Real GNP rose by 30% during Eisenhower's Presidency. However the last quarter of 1957 marked the beginning of a slide into recession and renewed some fears of a return to prewar economic instability (Figure 4.3). Although the recession was relatively brief (concluding in the last quarter of 1959), unemployment reached 5.7% and manufacturing capacity utilization was down slightly (80% from an 87% average in the 1950s). Concern remained for the national debt. Again, Business Week noted: "For most of the seven years he has been in office, Pres. Eisenhower has unhappily watched the public debt rise -- convinced that it is harmful but unable to halt the trend" (Business Week, 1/16/60, p. 17). The Federal budget was in surplus in 1960. From a monetary perspective, interest rate yields were a mere 2.9% on Treasury 90 day bills and the money supply fell by 0.7% during 1960.

By the late-1950s, despite a considerable dichotomy between actual and potential GNP (terms which may not have even been coined at that time), complacency about economic performance seemed widespread. This was, after all, the era of Walt Disney's Mouseketeers and Howdy Doody's Peanut Gallery.

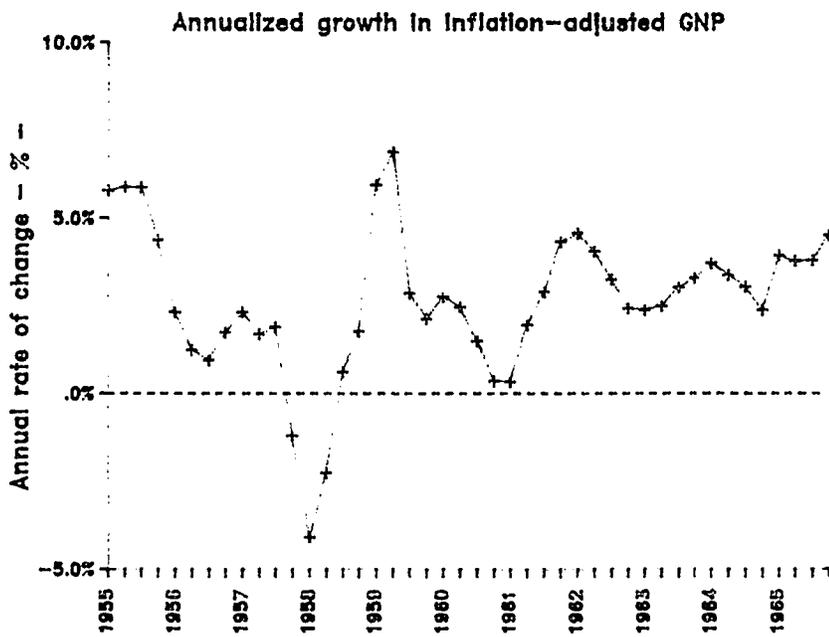
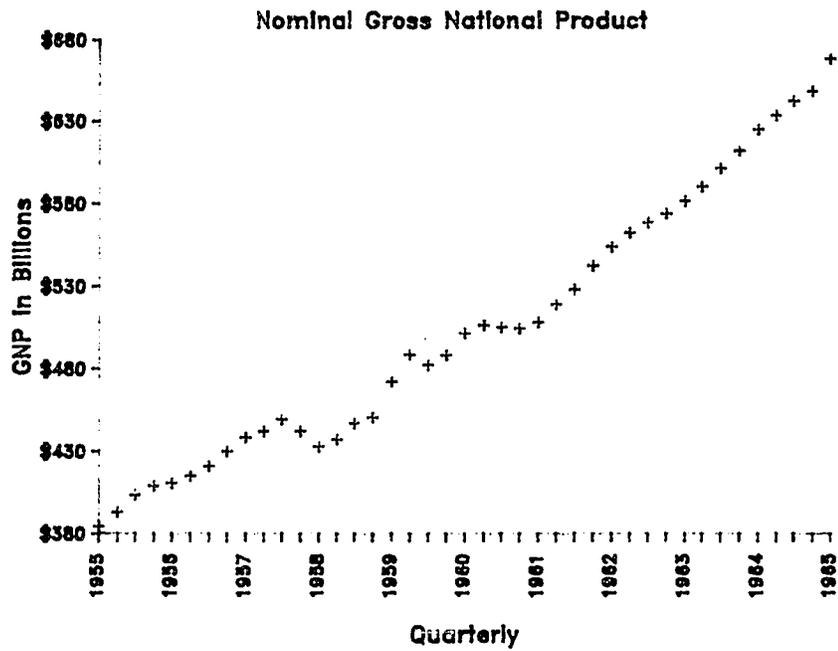


Figure 4.3. U.S. economic growth, 1955-65.

Herbert Stein noted that anti-recessionary planning was not part of the Council of Economic Advisors (CEA) agenda: "Even within the administration there was no advance plan [in 1957], no strategy for relating anti-recession fiscal policy to the longer-range financial prospect and program..." (Stein, 1969, p. 317). Lewis argues that the CEA misread the economic situation in 1959, but this was not widely appreciated. Congressional hearings on the labor unions received larger play. The Cold war and industrial strikes were dominant political issues leading into the 1960 election.

The recession received little discussion during the summer and fall of 1960. It was conspicuously ignored in public statements by presidential candidates of both parties, until late in the campaign, as well as by the incumbent administration. (Lewis, 1962, p. 243.)

Issues of economic health entered the campaign but they were secondary issues.

Kennedy's macroeconomic record

For the interregnum, Kennedy created an economic policy task force headed by Paul Samuelson, the primary Keynesian mentor of the period. The task force argued for both short-term and long-term remedies for inadequate economic growth. The task force also incorporated Keynesian economists into the policy-making framework of the White House. Kennedy's first CEA included three well-known academic economists, including Walter Heller who would coin the term "The New Economics."

Kennedy's first major economic policy ideas appeared in the State of the Union address (1961). They included a short-term program of unemployment benefits, food aid, regional redevelopment funds, and an increase in the minimum wage. Kennedy's proposal for an investment tax credit did not appear until the following year.

The investment tax credit of 1962 was immediately followed by proposals for a general tax cut. However support for the latter matured slowly and the general personal and corporate income tax cut passed only in February 1964 under pressure from Lyndon Johnson as his legacy to the Kennedy administration. These two economic policies marked the end of ten years of economic under-achievement. From the first quarter of 1961 to the last of 1968 (ironically another election quarter), the U.S. economy went through thirty quarters of continuous expansion in real GNP. The New Economics was born.

Table 4.1 lists the major macroeconomic policy events of the period. Some of the succeeding periods in macroeconomic policy implementation are discussed in the following chapters. The remainder of this chapter explores interpretations of the liberal Keynesian record.

Table 4.1.-- Outstanding macroeconomic policy events, 1945-65.

1944	Bretton Woods international monetary agreements
1945-48	Inflation averaged over 10% per annum
1946	Employment Act of 1946
1951	U.S. Treasury - Federal Reserve monetary accord
1958	Recession with unemployment at 6.8%
1962	Investment tax credit
1964	Personal and corporate income tax cut

Interpretations of Liberal Keynesianism

This section examines interpretations of interventionist macroeconomic policy in the immediate post-World War II period. The period can be characterized by the ascendancy of liberal Keynesianism in a period of U.S. international hegemony. The period is also characterized by the increasing role for the central government in the operating environment of the economy. This role would not be effectively challenged until the Reagan period.

Ex-post economic interpretation

The relative importance of different macroeconomic policy instruments has been controversial in economics for forty years. The growth-rate justification of the Kennedy and Johnson tax cuts and the forthright stabilization rhetoric of their economic advisors,

especially Walter Heller, led to further theoretical and empirical developments within the economics profession. However, considerable confusion remained over macroeconomic policy instruments and this might be attributed to the uncertainties of macroeconomic measurement and inexperience with macro econometric models. Doubt remains concerning the modeling of policy behavior.

While it is certainly tempting to treat the federal government as a behavioral unit, perhaps responding to unemployment and inflation rates, election dates, political philosophies of the ruling party, and the particular economic theories governing the Washington scene ... the study of the behavioral theories of central governments is still in its infancy. (Eckstein, 1983, p. 162.)

Of course one of the interesting aspects of the Reagan administration is the explicit reworking of national income forecasting models to include Arthur Laffer's theory of supply-side economic incentives. Obviously the empirical questions continue and are being fueled by the Reagan and Thatcher social experiments. (Cf. Greider 1981; Epstein 1981; and Livingstone 1983.)

The early ambiguity about the relevance and performance of stabilization policies between the Eisenhower and Kennedy/Johnson administrations has been addressed in two substantial econometric analyses. Wayne Snyder (1970) examined the stabilization record of the United States, Sweden and the Great Britain in the 1955-1965 period. He discovered that while the United States had the closest stabilization record around the national trend in gross domestic product (GDP), it

had the weakest record in terms of potential GDP. Not only did the U.S. economy perform well below its potential, Snyder noted, but the Eisenhower administration, which was consistently concerned with the potential for inflation, apparently stabilized the economy below full employment (Snyder, 1970, p. 932).

Alan Blinder and Stephen Goldfeld (1976) came to a similar conclusion by asking the question, does fiscal policy really matter? They developed new measures of fiscal and monetary policy for the period 1958-1973 and were eventually struck by one particular feature: macroeconomic objectives were not necessarily congruent with the de facto policy circumstance of the administrations. First, while monetary and fiscal policy acted in unison during Republican administrations, they acted in contraposition during Democratic administrations. Given the intricate nature of this interplay, Blinder and Goldfeld warn against the abstraction of a unified macroeconomic policy locus in the United States: "an abstraction with little or no empirical validity" (Blinder, 1976, p. 792). Second, agreeing with Snyder, they found that the Eisenhower administration apparently "pursued a systematic stabilizing fiscal program, but that stabilization was accomplished around a low level of resource utilization" (Blinder, 1976, p. 794). Ironically, the Kennedy/Johnson administrations destabilized the growth of real GNP and failed to stabilize the unemployment rate. Third, the effects of the Kennedy/Johnson stabilization of 1963-65 were far offset by the rapid increase in domestic and military expenditures from 1965 to 1968.

These econometric investigations, which are only the tip of the empirical analyses of macroeconomic policy, identify the different approaches toward the business cycle of the two administrations. They also reveal the myriad factors which can affect the achievement of macroeconomic policy objectives. The policy "revolution" of the Kennedy administration was constrained by the incrementalism of the budgetary process and by the relative autonomy of other state institutions, especially the Federal Reserve. However, these authors do not address the ideological aspects of economic theory. Modigliani observed:

Some monetarists would, I believe, go so far as to hold that, even in the unlikely event that stabilization policies could on balance prove beneficial, the government should not be trusted with the necessary power. (Modigliani, 1977, p. 1.)

These conclusions are corroborated by some of the insider and policy process literature.

The 1960 election was run in the wake of eight years' macroeconomic emphasis on price stability. Blinder and Goldfeld (1976) found fiscal policy "substantially restrictive" in 1959 as Federal spending declined and tax receipts increased. The overall swing in the Federal budget balance was from an expansionary \$3.5 billion in 1958 to a restrictive -\$2.4 billion in 1959. This policy continued for six of the eight quarters prior to the 1960 election. However, real purchases by the Federal government rose by \$9 billion between the first quarter of 1960 and the first quarter of 1962, perhaps a political business cycle

phenomenon. Blinder & Goldfeld considered monetary policy restrictive (counter-cyclical) in 1958-1959, being below trend for nine of eleven pre-election quarters, but returning to trend in 1960.

Interestingly, the Eisenhower administration is the major anomaly highlighted in Tufte's electoral cycle research.

Things were different during the Eisenhower administration. Real income growth declined in every election year (1954, 1956, 1958, and 1960), but rose in three of the four intervening years without elections. ... Eisenhower read his landslide victory in 1952 as the voters' express approval of these goals [price stability and smaller Federal budgets] and as the rejection of the Democratic focus on governmental intervention to reduce unemployment. (Tufte, 1978, p. 16.)

Snyder's depiction of stabilization policy shows a world-scale to the 1958 recession in which Great Britain and Sweden joined the United States in significant deviations of actual from potential GNP. However in the United States the overall deviation persisted for a full ten years, from 1955 through 1965. Snyder also notes a concurrence in the Eisenhower administration and the beginning of the Kennedy administration over macroeconomic policy:

And as late as January 1962 the new Kennedy administration believed that the economy could achieve a 4 percent level of unemployment by mid-1963 without any major discretionary policies ... (Snyder, 1970, p. 930.)

Sundquist (1968) cites Eisenhower's apparent bemusement with the voter turnout on economic issues while Stein (1969) cites Nixon's frustration with this conservative fiscalism in the 1960 election.

Economic adviser chronicles

The fiscal revolution championed by Walter Heller and other Keynesian advisers initially was not accepted, even by Kennedy. Perhaps political reality stood in the way (the tenuous balance of marginal events in a close election) but equally likely is a reluctance on the part of a chief executive to undertake a new policy direction when the evidence of its possible effect is weak. The ability of capitalism as a social system to learn about itself is not instantaneous.

Seymour Harris reviewed economic policy formation in Administrations preceding Kennedy and concluded:

Over each of these disputed issues the advice of professional economists had been either rejected or substantially modified by politicians with executive or legislative responsibility. The underlying reason was the economists' neglect of powerful non-economic factors involved in the making of public policy. (Harris, 1964, p. 37.)

The intellectual effort of liberal Keynesian economists under Kennedy was to break this cycle. The structural prerequisites were already in place.

The history of rationales for tax reductions like those proposed by Kennedy and Johnson goes back at least to the Hoover era, and some argue that Lincoln used explicit deficit financing. Stein raised the Hoover period as an antecedent to the aura of social engineering which surrounded Kennedy and Johnson. He quotes Hoover's critique of standard Republicanism:

Mr. Mellon had only one formula -- 'Liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate.' Both other members of the Administration ... believed with me that we should use the powers of government to cushion the situation. (Stein, 1969, p. 8.)

Hoover proceeded to propose tax relief despite an unbalanced Federal budget. Stein also mentions the National Association of Manufacturers' support for expansionary tax relief in 1947, but he also acknowledges that business finds tax cuts much more palatable than other interest groups (Stein, 1969, pgs. 214 & 412). He does not mention Harding's attitude toward the business cycle.

There has been vast unemployment before and there will be again. There will be depression and inflation just as surely as the tides ebb and flow. I would have little enthusiasm for any proposed remedy which seeks either supplication or tonic from the Public Treasury. (quoted in Bailey, 1950, p. 6.)

Norton suggests that support of stimulative fiscal policy by groups such as the National Association of Manufacturers was won as a compromise against further structural reforms initiated by the New Deal (Norton, 1977, p. 37). Although Holmans notes that before World War II there was relatively little the Federal government could do to affect short-term business cycle effects in the world economy (since Federal expenditures as a share of GNP were low), nonetheless other OECD countries were concerned that the United States would pull the rest of the world into recession through its macroeconomic conservatism (Holmans, 1961, p. 43 ff).

The orientation of Eisenhower's CEA was summed up in the introduction to the 1960 annual Economic Report: "By helping to restrain inflationary pressures, such a budgetary surplus would be a significant factor in promoting steady and vigorous economic growth" (Eisenhower, 1960, p. 54).

Nixon charted a somewhat separate course, difficult for a Vice President. In a speech before the National Association of Business Economists less than two weeks before the election, Nixon proposed a twelve point economic program which included revision of personal and corporate tax rates and accelerated depreciation schedules, without specific details (New York Times, 10/21/60). He also called for a National Economic Council, parallel to the National Security Council, to coordinate economic policy. Interestingly, the CEA was not mentioned. Nixon countered the Democrats' emphasis on low productivity in the United States with an attack on a "calculated campaign to develop a national inferiority complex about our economy and other aspects of life in America." He pledged to keep the money supply "honest" and not to interfere with the Federal Reserve.

The most obvious difference in approach between Kennedy and the Republicans was in the former's acceptance of an orientation favorable to discretionary fiscal policy.

The Kennedy administration in 1961 was conspicuously free from a constraint that had inhibited counter-recession proposals in the three previous recessions -- the fear that an admission

that the economy was in need of a fiscal stimulus would produce a perverse effect by depressing private expectations. (Lewis, 1962, p. 274).

The New York Times, in its election preview, found "the deepest philosophical division between the two parties comes over the whole question of the Government's role in the economy" (New York Times, 7/31/60). This was the central theme of the period, but its significance probably was lost on economists and overshadowed by other aspects of the growing Federal presence in society.

The first economic report of Kennedy's CEA marked the importance of professional economic leadership in the Kennedy administration. The CEA emphasized the concept of a "full employment budget" in contrast to the simple (yet misleading) accounting budget used throughout the Federal government. Macroeconomic policy was not quickly freed following the 1960 election from bonds of business cycle inevitability and an historic orientation toward laissez faire. Kennedy remained loyal to the concept of a balanced Federal budget and the supplementary goal of price stability for most of his administration.

Concern over the resumption of inflationary pressures hangs over all our efforts to restore the economy, to stimulate its growth, and to maintain our competitive status abroad. (Kennedy, 1962, p. 89.)

Despite strong pressure from Heller and his colleagues [Sorensen (1965) notes the CEA inundated Kennedy with fiscal memoranda], as late as August 1962 Kennedy was willing to defer action on a "quick" tax cut

despite general evidence of economic downturn. Indeed, Flash (1965) called 1961 "the year of continuing tradition." However the course of economic events pressed on:

Realization of the potentiality of tax policy as a leading weapon against unemployment and stagnation grew out of the tax reform activity of the previous eighteen months [in Congress, including the final year of the Eisenhower administration], the success and failure of economic policies over the same period, and the growing preference for tax reduction as well as reform over other fiscal and monetary alternatives. (Flash, 1965, p. 230.)

Kennedy was also worried about the reaction of the business community to his policy and undertook a number of steps to counter this opposition. His famous Yale speech in June 1962 concentrated on bridging the perceived gap between government and business interests. Kennedy argued that the cliches of the past concerning the conflict between the public and private sectors were redundant, especially in light of 15 years decline in the ratio of GNP taken by the Federal government. Furthermore, the problems were "subtle challenges for which technical answers, not political answers, must be provided" (Kennedy, 1962, p. 474).

While Presidents may have a tendency to reduce the level of rhetoric within the confines of the presidency's dominant class fractions, the similarity between Kennedy's and Hoover's attitudes suggests that there was no strong conjunctural economic force pressing for intervention although there was a drift toward such policy. Galbraith called Kennedy's appearance before the New York Economic Club

(in which the divisions between business and government were discussed), "the most Republican speech since McKinley" (Stein, 1969, p. 421). It was the structural development of the U.S. economy that called for the adoption of deficit financing.

By 1963 Kennedy was frustrated with business criticism and attacked the "checkrein of taxes" in the State of the Union address. In a speech before the American Bankers Association, Kennedy argued that economic issues are "too often obscured by superficial details and too often torn by conflicting claims and interests...such serious issues must not be decided by rules of party politics, public opinion polls, and prejudices" (Kennedy, 1963, p. 214). In the 1963 State of the Union address, Kennedy cited the Federal budget as a major tool in joining public and private purposes, and proposed a short term deficit to correct the structural limitations of the economy. He proposed a \$10 billion general tax cut. Interestingly, on the eve of his major fiscal policy victory, Kennedy did not reiterate his 1962 proposals for standby authority to manipulate tax rates.

Although Kennedy would win business support, important fractions of the corporate sector would continue to disagree with deficit financing. Charls E. Walker, speaking on behalf of the American Bankers Association during Congressional hearings on Kennedy's proposed 1963 tax cut, said:

To advocate, as the President has, a significant lessening in the drag on our economy stemming from an oppressive tax-rate structure is highly commendable;

But, to couple this proposed reduction with an increase in Federal spending that would produce a planned Federal deficit of almost \$12-billion is to incur large and unnecessary risks to the Free World's financial structures. (Banking, April 1963, p. 45.)

Stein argues that these changes in fiscal policy were simply extensions of the aftermath of the Great Depression and the political momentum of the New Deal (Stein, 1969, p. 467). Peter Temin (1976) has argued convincingly that while inadequate aggregate demand contributed to the Great Depression, the fiscal impact of the New Deal was insubstantial. A current re-interpretation of this argument contrasts the liberal Keynesians of the 1960s and 1970s with the Roosevelt administration:

But he [Roosevelt] resisted an expansionary approach out of the conviction that the economy's problems were structural, rather than fiscal. ... Salvation could only be achieved through structural reform. ... While New Dealers of the 1930s and mainstream liberal economists of the 1970s share a common commitment toward income distribution [inter alia], contemporary liberal economists have far greater respect for the value of competitive market mechanisms in making sure there is something to redistribute. (Lee, 1979, p. 388.)

Macroeconomic policy may be seen as a laissez faire alternative to stronger interventions much as Keynes saw his policies as an alternative to socialism in Britain.

The historic identification of Republicans with business played an important role immediately following the 1960 election in the lack of acceptance of Kennedy's macroeconomic policy. Surveys by the business press showed that between 55-80% of business leaders had supported the

Republican party as "closest to their interests" (Heath, 1969, p. 2). Comparisons abound of business managers versus academics in the two administrations. For example, Seymour Harris noted that only twelve of Kennedy's first one hundred appointments came from business, finance and insurance, as compared with Eisenhower's 36% of 188 appointments (Harris, 1964, p. 25). Following the election, the Wall Street Journal argued that the closeness of the election would temper Kennedy's fiscalism and Business Week recommended abandonment of the Democratic platform. Of course, this apparent difference in background has been denigrated by revisionist scholars as being background noise of no substantial policy impact (Cf. Kolko, 1976). Different roads to political power required that Kennedy actively organize business support for his policies. Kennedy's New York Economic Club speech of June 1962 and his address to the National Industrial Conference Board in February 1961 were examples of collaborative politics. "We know that your success and ours are intertwined" (Kennedy, 1961, p. 87).

Kennedy formed the Business Committee for Tax Reduction (chaired by Henry Ford II) and the Citizens Committee for Tax Reduction and Reform to "foster wider understanding of the need for a tax cut" (Kennedy, 1963, p. 351). Heath also cites Kennedy's solicitation of trade associations as a tactic "to woo business support" (Heath, 1969, p. 13). Shortly after the 1962 Yale speech, the U.S. Chamber of Commerce called for a \$7.5 - \$10 billion tax cut, roughly equivalent to Kennedy's general tax cut proposal.

The ground for this acceptance had been laid even earlier, as indicated by the business press. Fortune magazine critiqued Truman in 1949 for a "pre-Keynesian obsession with a balanced budget" (Holmans, 1961, p. 129). Examining issues of Business Week, Forbes and Fortune suggests an educational process on the fiscal possibilities of growth was clearly underway in 1959. While not all the business media were on the "bandwagon" (e.g. Forbes), there was a general drift towards endorsement of "professional" economic management.

A number of factors made these developments possible. In political organization there was the creation of the Committee for Economic Development (CED) under the auspices of the Secretary of Commerce in 1942. The CED represented the logical extension of the wartime role of large manufacturers.

The previous estrangement of the dominant fractions of corporate capital from the New Deal was superseded by the intimacy of collaboration as the flower of Wall Street became the economic warlords of Washington. (Davis, 1980, p. 63.)

The CED published a number of monographs on deficit financing and printed a full page advertisement in the New York Times (6/25/61) to that effect following the election. Kennedy himself congratulated the CED for its accomplishments:

The CED has long recognized Government's inescapable obligation and contribution, and that Federal monetary and fiscal policies can and must supplement the decisions of the marketplace in determining the course of the economy. (Kennedy, 1963, p. 384.)

However ideological support for deficit financing also required factual verification. The 1962 investment tax credit had an uneven impact on business, and as such it was received with less enthusiasm than Kennedy expected.

Manufacturers were almost universally disappointed with the President's proposal. They welcomed incentive for modernization and expansion as a step in the right direction, but the majority viewed the sliding-scale formula [incorporated in the tax structure] as "gimmick-ridden" and excessively complex. (Heath, 1969, p. 43.)

The problem was that the utilization of tax credits required ready access to capital, something which tended to favor larger, more liquid corporations over small manufacturing concerns and were substantially less relevant to the retail and service sectors which were still faced with inadequate aggregate demand. Firms which recovered early from the 1959-61 recession were in better shape to profit from the Kennedy measures. As a result, "the lack of enthusiasm by business for the incentive plan astonished the administration" (Heath, 1969, p. 44).

The 1964 tax cut was received with wider acclaim. It passed Congress by a 74-19 vote in the Senate and by 326-83 in the House. The stock market had plunged in May 1962 and while business spending was up, it was up less than required to sustain a recovery. In response, Keith Funston, president of the New York Stock Exchange, called for a personal income tax cut to "restore zip in the economy" and restore confidence to investors (New York Times, 7/23/62). At the same time, Chase Manhattan Bank and the larger steel corporations were citing

lower earnings in the productive sector and the possibility of a downturn in 1963 as the economy was "losing momentum" (New York Times, 9/28/62). Furthermore, the Democrats pushed up Federal expenditures in anticipation of the mid-term election and the Cuban missile crisis was regarded as a potential "spur" to the economy (New York Times, 10/26/62). Therefore the conditions were more propitious for a broader experiment in deficit financing.

Lyndon Johnson, in signing the legislation, heralded the legislation as a fundamental shift in economic policy. "It is the single most important step that we have taken to strengthen our economy since World War II" (Johnson, 1964, p. 18). Johnson hedged his bets by citing Pierre Renfret, Wall Street economist, as crediting the tax cut with initiating a capital goods boom (New York Times, 2/27/64). The National Association of Manufacturers, however, complained that the deficits the tax cut entailed would reduce business incentives to invest (New York Times, 2/9/64).

Monetary policy had been relatively neutral from 1961 through 1964, except for a highly noted glitch in 1963, the raising of the Federal Reserve's rediscount rate (the rate at which member banks requiring additional reserves can borrow). Blinder and Goldfeld consider this a period in which the Federal Reserve "leaned against" expansionary fiscal policy. "We conclude that, contrary to what others have claimed, the Fed does not deserve much credit for the strong expansion of 1964-65" (Blinder, 1976, p. 791). "Leaning against" the tax cuts

would decrease the availability of finance capital to those firms which needed to borrow on the open market. Thus some political support for counter cyclical deficit financing was delayed until the impetus of growth itself provided sufficient liquidity for most categories of business. The Federal Reserve would return to greater political importance at another stage of the business cycle, as early as 1968.

At the same time, the international situation was considered by many to be a major obstacle to stimulative monetary policy in the United States. Indeed, one of Kennedy's early special messages was on gold and the balance of payments (Cf. Kennedy, 1961, p. 57 ff). Epstein argues that the balance of payments problem was the key to Kennedy's initial economic policy because of the limitations imposed by the Federal Reserve's reluctance to reduce interest rates in the face of substantial capital outflows. U.S. direct investment abroad grew at 10% a year throughout the 1950-1960 period and the U.S. trade position was considered to have been weakened significantly since Bretton Woods (Epstein, 1981, p. 148). However it is also important to realize that while the United States played a major absolute role in world trade and investment, world trade represented a small share of U.S. GNP. This effectively shielded the U.S. economy from much of the international adjustment problems faced on a continuing basis in Europe.

What can be seen throughout this period in the texts of the CEA, the Congressional hearings on economic policy, the writings and speeches of the Presidents, and the business press is a slow process of

budgetary innovation moving toward explicit macroeconomic intervention. The 1964 tax cut represented the leading edge of this process.

In retrospect, Walter Heller said:

Today's talk of an "intellectual revolution" and a "new economics" arises not out of startling discoveries of new economic truths but out of the swift and progressive weaving of modern economics into the fabric of national thinking and policy.

Two Presidents have recognized and drawn upon modern economics as a source of national strength and Presidential power. (Heller, 1966, pgs. vii & 10.)

Time magazine came to say:

If the nation has economic problems, they are the problems of high employment, high growth and high hopes. As the U.S. enters what shapes up as the sixth straight year of expansion, its economic strategists confess rather cheerily that they have just about reached the outer limits of economic knowledge. (Time, 12/31/65, p. 67B.)

By 1965 the War on Poverty and the U.S. war in Vietnam were beginning to have their fiscal impact, much as Ronald Reagan's defense expenditures and inability to limit entitlement programs have had their fiscal impact. Blinder and Goldfeld note that these expenditures "dwarfed" the actual counter-cyclical policies put in place by Kennedy and Johnson.

Deficit financing became a political economic tool. The choice of its application, even as a counter cyclical weapon, or even its acceptance in other circumstances, has proven to be secondary to non-economic policy objectives. Furthermore, there is no direct correspond-

ence between Keynesianism and full employment objectives, although that is the context of their first relationship in the United States. Nor is there a functional relationship between the growth ideology of the 1960s and long-term support for full employment. Kennedy said, "What is at stake in our economic decisions today is not some grand warfare of rival ideologies which will sweep the country with passion but the practical management of a modern economy" (Kennedy, 1962, p. 473).

These political economic concerns correspond to both econometric and to and electoral cycle studies. Nordhaus (1975) cites the 1960 and 1968 elections as the exceptions that prove the rule: unemployment rose in both election years and the incumbent party lost, the only time during his reference period. MacRae found the Democratic governments to be more clearly in line with a conscious voter-response model and indicated that the Eisenhower administration may have been out of line due to the newness of fiscal economics (MacRae, 1977, p. 261). However none of the political business cycle model papers are sufficiently historical to take into account changes in macroeconomic policy regimes, and their ahistorical nature must be viewed as a major detriment to their analytical use. They have, however, found significant usage as election prognosticators (Cf. Silk, 1984, p. 125 ff).

Economic history

If we examine this period from the long view of post-World War II U.S. economic history, the Kennedy years were a part of "the new era of commercial liberalism which flowered" under an atomic umbrella (Davis, 1984, p. 9). It was the era of Henry Wallace's "Century of the Common Man" and Henry Luce's "American Century." It involved an "intensive regime of accumulation": the generalization of mass production and mass consumption across the U. S. and increasingly on a world scale. The mechanization of agriculture following World World II also led to emigration into the cities of the North and the Southwest. This contributed to suburbanization (which was subsidized by Federal infra-structural expenditures) while higher education and the stability of the wage-productivity accord between capital and labor helped reconstruct the work force. Aglietta (1978) cites this period as one of accelerated accumulation in Department II (consumer goods). It was also the era initiating the "military-industrial complex" during which time armaments spending did not retreat in the same manner as the years immediately following World War I.

The social revolts of the mid-1960s were barely visible as the Eisenhower regime concluded. The response of the Kennedy/Johnson administrations to these challenges was a "neo-Fordist" expansion of social expenditures designed to upgrade skills and productivity (Davis, 1984). The state was intimately involved in social engineering on a number of levels but always within the norms of the effective

functioning of private enterprise. The possibility for this interventionism was increased by a temporary mid-1960s rise in the rate of profit. Nordhaus reported a decline in the "genuine" rate of return to capital in the post-World War II period but he also found a temporary halt to this decline during the 1962-68 period. Nordhaus attributes this decline to reduced risk due to lower amplitudes in the fluctuation of profits.

It is commonplace to argue that Keynesian thought has so revolutionized economic management that episodes like the Great Depression are obsolete, and that with competent economic management the record of the 1960s can be the norm. ... Until a further revolution in society or in economic management renders the Keynesian revolution obsolete, fluctuations in profits are likely to continue at the relatively low levels experienced over the last fifteen years. (Nordhaus, 1974, p. 205.)

He found an "egalitarian thrust" from a declining share of capital in national income, but expected that trend to come to an end. He also found an overall decline in the rate of tax on genuine capital income from 1951 through 1967, a factor which would tend to diminish the significance of the Kennedy and Johnson tax cuts. Interestingly, Nordhaus expected "hair-raising inflations" if the 1972 price controls were lifted. He was, of course, correct. Similarly, Weisskopf saw a moderation from 1958 to 1970 in a long-term increase in the strength of labor (Weisskopf, 1979, p. 364). This would also contribute to the propitious conditions for the implementation of an interventionist fiscal policy in the early 1960s.

O'Connor (1973) cites the ascendancy of national capital as the driving wedge between the Executive branch, on the one hand, and Congress which represented regional influences. There was a pyramiding of control from the establishment of the Budget Bureau to the creation of the CEA and finally the dominant role of the Office of Management and Budget (OMB).

The evolution of the state budget as a crucial factor in economic life has gone hand in hand with the development of a permanent state bureaucracy. State capitalism ... is the integrating principle of modern economic life.
(O'Connor, 1973, p. 72.)

The Kennedy and Johnson exercises in macroeconomic adjustment were definite steps in increasing the role of the state in advanced industrial capitalism. They were not, however, a definitive demarcation in the post-World War II phase of the U.S. economy.

Structuralist Interpretations

The differences between the Republicans and Democrats on macroeconomic policy were not great in 1960. Indeed, one might argue that it took the ideological rebirth of conservative economics through the work of Milton Friedman to offset the bipartisan rise of Keynesianism. Mandel's (1978c) analysis of the forces leading to the recessionary crisis of 1974/75 suggests that major capitalist leaders learned from their wartime experience with deficit financing and the political dangers incorporated in the social dynamic of major recessions. This realization helped to justify manipulation of aggregate demand during

the relatively sustained period of economic growth that comprised the 1960s. However the "fiscal revolution" did not lead to an end of the business cycle and as the post-World War II forces of reconstruction withered away, the efficacy of liberal macroeconomic policy diminished.

Capitalist forces at all levels of the cycle of expanded reproduction had reason to support liberal macroeconomic policy during the 1960s, although the effects were uneven. The labor bureaucracy had reason to support a growth orientation, since that provided more membership and fewer crises between the rank-and-file and management. Deprived minority groups and the poverty stricken had reason to support liberal macroeconomic accommodation with Great Society programs. Even those who supported the U.S. war in Vietnam had reason to support an economic policy which legitimized deficits and masked the economic cost of the military build up.

Labor's accedence to liberal Keynesianism had a cost fifteen years later. Bowles, Gordon and Weisskopf (1983) argue that the 1974/75 recession represented corporate America's "trench warfare" against "the encroachment on corporate prerogatives" won in the 1960s. They view the growth of the welfare state as a fundamental concession won by the working class against the power of capitalist enterprise. As such, liberal macroeconomic policy, insofar as it supported lower levels of unemployment and higher real wages, would also be such a concession. Certainly the support of organized labor might so suggest. However, the capitalist state, rather than institutionalizing the "victories" of the

working class, bends these political pressures to the least detriment (if not actual benefit) of the capitalist system. The ability of different sectors of the economy to take advantage of changes in macro-economic conditions is an important variable in structural macro-economics.

The immediate post-World War II era represented a continued expansion of the state in the United States. Professional bodies multiplied to take control over the most excessive problems of a private enterprise economy, and advisory bodies were instituted to incorporate important pressure groups into the decision making framework. The most notable accomplishments in economic policy were the creation of the CEA and the centralization of expenditure matters in OMB. Yet in some ways, little changed. Discretionary freedom to manipulate tax rates and to encumber funds was either non-existent or extremely limited. One of Nixon's greatest administrative frustrations lay in Congressional rejection of line item vetoes and budgetary impoundments. Thus neither Kennedy nor Nixon was able to wrest control of fiscal policy from Congressional collaboration, and this remains true today.

Two reasons might be suggested for this failure. In the first place, the ability of economists and political advisors to adequately predict the course of macroeconomic events within the myriad influences of everyday politics limits the viability of such policies. But more importantly, the formal structure of the U.S. economy, with a highly

mobile multinational manufacturing, distributing, and financing sector and a broadly based small business sector, gives little incentive for strict regulation of the economy. Certainly a planned price and consumer demand environment might be supported by the larger corporations, but for most of the post-World War II period this could be maintained approximately by automatic fiscal stabilizers and the dominant position of U.S. oligopolies. More importantly, multinational corporations have wanted to retain the freedom of capital that an unplanned economy permits. One might well argue that a primary factor in Britain's economic decline was that the financial sector and the strength of labor collaborated to develop a planned macroeconomy at a considerable cost to private manufacturing firms. Meanwhile, in the United States, some manufacturing and distributive firms have much to gain by the retrenchment effects of recessions, especially in terms of labor conditions, while others have simply diversified overseas.

Whether the conservatives truly understood the 1960s to be a unique period of economic growth or not, their ideological attachment to balanced budgets and free enterprise appeared archaic at the time. In retrospect, their prescriptions appear prescient since they prepared the intellectual ground for retrenchment in state economic functions during this period involving attempts to reconstruct the rate of surplus value. The efficacy of Reaganomics for a nation-state polity in a multinational economy is not quite so clear.

Although it might be viewed as surprising that much of the business press was supportive of interventionist fiscal policy in 1960 and Kennedy was able to enlist large corporate supporters for his tax cut proposals, the reason for this may be seen in the relationship between capital intensive segments of national production and the overall trend of the economy in this period. Although growth in GNP and real corporate profits was sufficiently strong from 1945 through 1974 to suggest that dramatic changes in economic policy were not required, the 1960 period is notable because of the falling share of produced durable manufactures in GNP (Figure 4.4). Although recessionary aspects could be identified from GNP figures for 1959-60, even without this macro effect there was a clear long-run structural discrimination (perhaps institutionalized) against the needs of the large corporate productive sector. Business Week cited the first nine months of 1960 as a "profit recession," hardly a harbinger for the forthcoming election (Business Week, 10/29/60). Kennedy played to this increasingly dominant part of the U.S. ruling elite, and the results shifted the post-World War II orientation of economic policy and electoral politics. The unfettered capitalist competition of the mythical middle America was replaced by an equally mythical state capitalism. Ironically the evidence on government debt and government spending suggests that there was little difference between the "old" and "new" Americas (Figure 4.5).

The two tax cuts dealt with a deepseated problem of disproportionality between the two basic sectors (or departments) of a

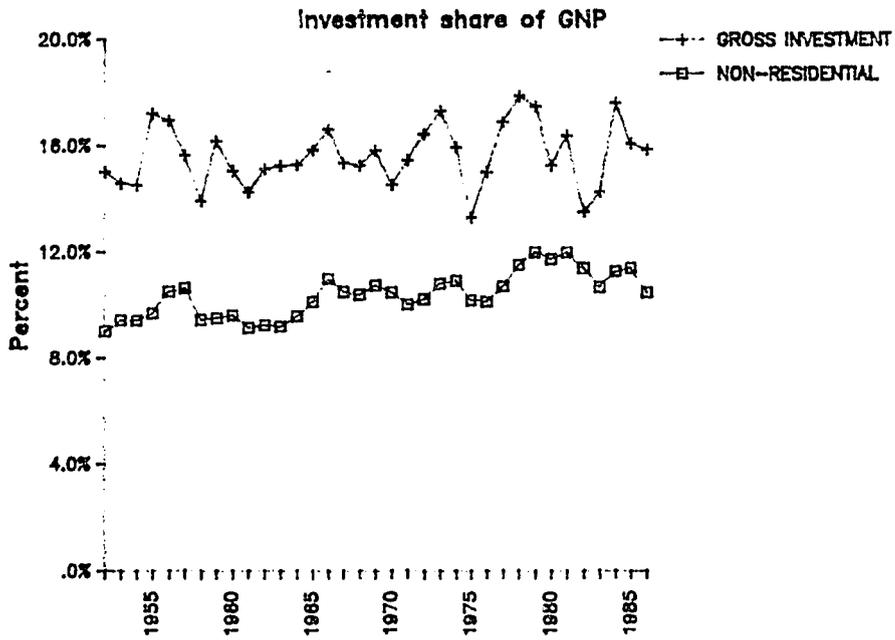
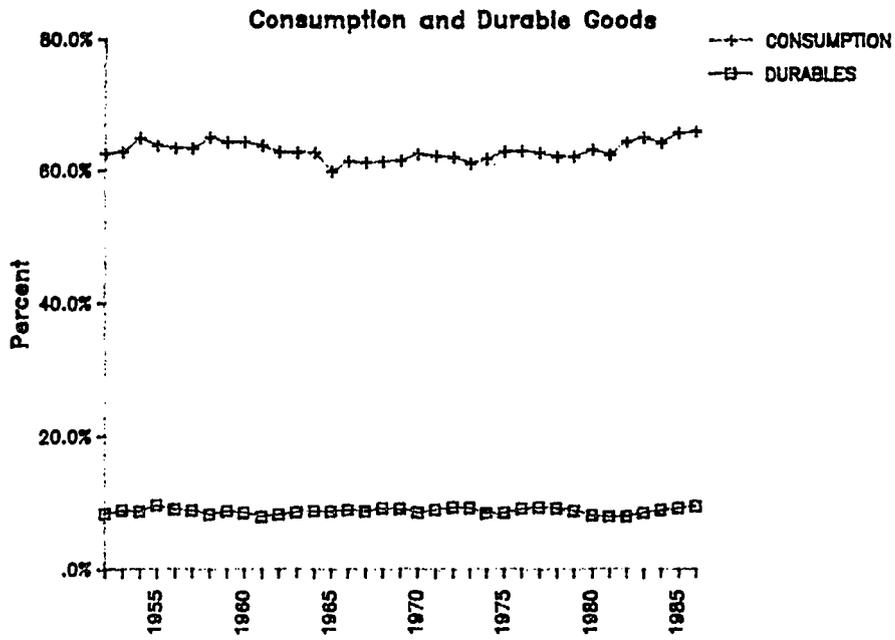


Figure 4.4. Shares of GNP, 1951-86.

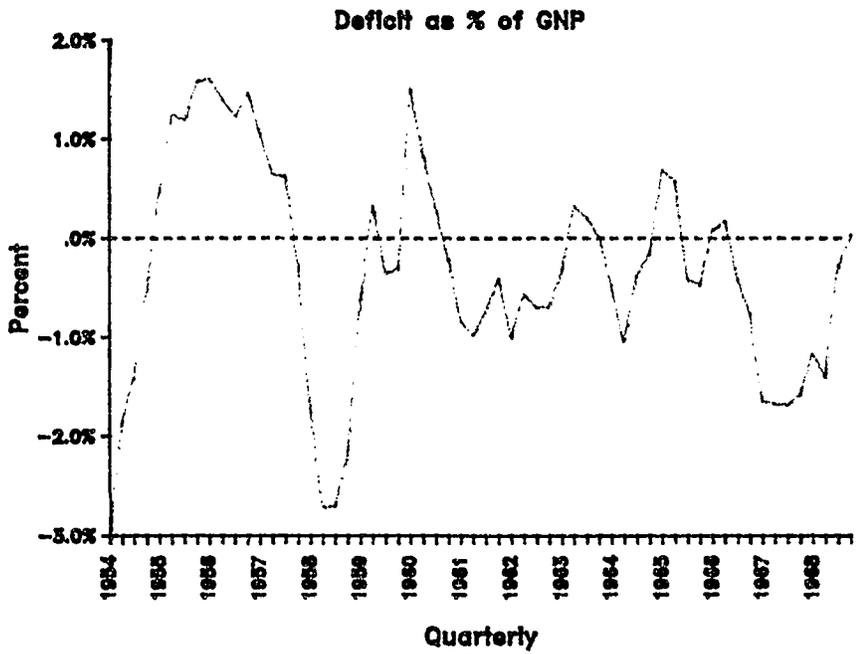
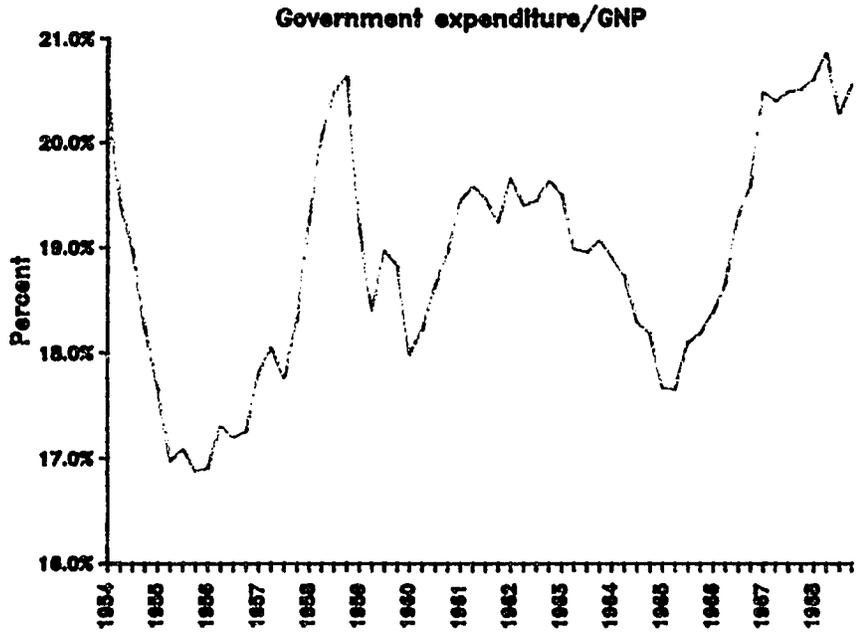


Figure 4.5. U.S. government economic role, 1954-68.

productive economy -- producer goods and consumer goods. The implications of the business cycle and its political correlates in macroeconomic policy move from micro foundations in corporate liquidity to social and political action. The Kennedy and Johnson tax cuts existed within a segment of the business cycle and within a slice of the longer wave of expanded reproduction in the post-World War II United States. Institutionalizing Keynesian principles of macroeconomic management provided a mechanism for response to political demands arising from the business cycle without legitimizing such demands on each occasion.

Did Kennedy, or capitalism, have any options in 1961? The answer of course must be yes. The election itself was not foreordained despite Eisenhower's unenlightened approach to the political business cycle. Furthermore, Nixon and the other Democratic candidates seemed as likely as Kennedy to have carried out expansionary fiscal policy. State ideology had clearly developed to correspond with the centralization of the economy, even if the ideological hegemony of deficit spending was not won until 1965.

Besides electoral politics, however, there is also the question of the fate of the U.S. economy in the absence of the 1962 and 1964 tax cuts. A failure to achieve these tax cuts would probably have increased conflict over the share of national income going to labor. As such, the social conflicts of the mid-1960s might have been deepened. The most significant effect might not have occurred until the cost of the U.S.

war in Vietnam became apparent. The interventionist fiscal policy of the early 1960s translated fairly easily into the tax surcharge of 1968, deficit financing for the war, and the economic controls in 1972. None of these factors, however, seems to have changed the fundamental direction of the U.S. economy. As such, the implementation of an interventionist fiscal policy (including the creation of the CEA, the White House's domestic issues staff, and OMB) was a technical adjustment in the course of post-World War II corporate capitalism in the United States. It also served to increase the legitimacy of the state, if not specific government policies, and as such its dividends may have yet to be paid.

It is apparent that the structural features of the U.S. economy are "relatively enduring social relationships" which do not change easily. Liberal Keynesianism was an expansion of state responsibility within a limited range. The continued use of fiscal and monetary policy instead of an explicit industrial policy represents the political strength of the underlying industrial sector in the United States.

The problem for large scale productive capital in the 1960s was the transition from laissez faire policies to an interventionist approach to state control if the business cycle weakens substantially. Both fiscal and monetary policy are relatively weak state policies when compared to Western European and Japanese industrial policy. However the advantage of manipulation of aggregate demand and the money supply is that their policy effects are indirect, unfocused and diffuse. In

the absence of organized resistance to national economic policy, there are political efficiencies of state expenditure to be gained from decentralized approaches to economic maintenance. Quite likely, latent reactionism in the United States is an additional factor in allowing substantial corporate resistance to a national industrial policy. However, Reagan also has continued the centralization of a number of Federal economic policy-making and implementing activities. The machinery for a strong state is not only found in the repressive arsenal of government.

Conclusion

The fiscal revolution represented another step in the intervention of the state in the process of accumulation and realization while maintaining the artificial division of public and private interests. As such, modern fiscal and monetary management represents a strengthening of corporate capitalism against political initiatives that might result from major recessions. Whether this is adequate remains to be seen, but the experience in 1974/75 and in 1980/82 does little to suggest that economic determinacy has yet created an alternative to the current mode of social organization.

In 1960 both the institutions and the ideas of macroeconomic policy were in place. However fiscal policy had yet to be effective, and its impact appears to have been relatively incoherent throughout most of the intervening 25 years. It might be argued that macroeconomic

management from 1961 through 1968 represented a harmony of economic interests on the part of the business community in the United States and that the deviations since that time correspond to the fracturing of interests under the pressure of the business cycle and international competition. Clearly the institutional framework has been adjusted in the intervening years, but it has generally stayed the course. Perhaps Keynesianism has depoliticized government activity on the economy. Fiscal policy is opaque and monetary policy isolated from political scrutiny. Both have become technically automatic in many ways.

The two clearest counter examples to this automation of macroeconomic policy are Nixon's wage and price controls (1971-74) and the decline of the CEA under Reagan. Nixon's policy showed the strength of the state in decreeing a change in market behavior but it also showed the state's weakness as an economic regulator of individual business practices. The decline of the CEA under Reagan represents an increased politicization of macroeconomic policy (under OMB and the domestic policy staff), independent of received mainstream economics.

The ability of the ruling class, or at least the dominant class fraction, to organize itself is the central cleavage of institutional perspectives on economic policy formation. The activities of groups like the CED and the Conference Board in the promoting development of an ideological consensus for Keynesianism show that relatively small groups can concentrate the strategic ideas of the corporate sector. The hegemony of competing political strategies involves all the elements

which affect state power. The development of fiscal policy in the 1960s was consistent with economic conditions and political development. The growing influence of monetary policy in the 1970s and 1980s, as discussed in the next chapter, represents the structural political element in the formation of macroeconomic policy.

CHAPTER 5

RAIDERS OF THE LOST ARK: The Growth of the Influence of Monetary Policy

Introduction

It has been said that liberals lost their domestic social policy impetus following the passage of the Civil Rights Act of 1964 and the implementation of the Great Society programs from 1965-68. If so, then the period beginning in 1969 was one of increasingly restrictive focus in economic policy. The apparent Keynesian consensus on fiscal management (which itself has been termed conservative outside the context of social democratic Great Britain) was a breakthrough of remarkably limited scope. No sooner were Milton Friedman and Richard Nixon "Keynesians" than fiscal policy was replaced by a rhetorical, if not completely actual, reliance on monetary policy. This deterioration in the liberal order could be ascribed to the impact of the U.S. war in Vietnam or to a change in the long wave of economic conditions, both unsettling the growth and redistribution basis of fiscal fine tuning, or it could be merely that a mistaken perception existed of economic policy in the 1960s. The point is, the emphasis of macroeconomic policy changed.

The basic thesis of this chapter is that basic structural changes in the U.S. and world political economy in the 1960s and 1970s created political conditions conducive to a change in apparent national macroeconomic objectives and thus in the choice of macroeconomic tools. Epstein's (1981) argument concerning the hidden role of the Federal Reserve in the 1980 election coincides with this perspective, but his work is not discussed in detail here. This chapter traces arguments about the saliency of monetary policy in the context of economic conditions in the mid-1960s, discusses the growing influence of monetary policy, and concludes with a description of monetary policy's institutional base, the Federal Reserve.

Johnson and the Federal Reserve

The first round in the deterioration of Keynesian hegemony came with the conflict between Lyndon Johnson and the Federal Reserve in 1966-68. Johnson embraced the expansiveness of legitimized budget deficits and the 1965 Economic Report of the President included a salutary observation on the potential for linking fiscal and monetary policy:

Monetary policy has supported the objectives of fiscal policy by maintaining a ready availability of credit, thus accommodating an expansion of demand. (Economic Report of the President, 1965, p. 66.)

The Federal Reserve was barely mentioned in the Economic Report's economics lesson. However in December 1965 the Federal Reserve raised

the discount rate and Johnson responded that the "decision on interest rates should have been a coordinated policy decision" which was unwarranted by current conditions (Johnson, 1965, p. 640).

Raising the discount rate was contentious even within the Federal Reserve Board, with three of the seven Governors objecting. Reserve Board member J.L. Robertson said:

Changes in monetary policy should not be triggered by fear of prosperity ... If for whatever reasons, a tightening action is to be initiated, it would be preferable to use a subtle rather than a slam-bang method [i.e. using open market bond operations instead of the discount window]. (Federal Reserve Bulletin, December 1965, p. 1681.)

Robertson, Mitchell, and Maisel (the three dissenting Governors) echoed Johnson's call for delaying the action until the forthcoming Presidential Budget message. Not surprisingly, one each had been appointed by Truman, Kennedy and Johnson, while only one of the four approving members was a recent appointee.

At the end of 1966 Johnson sent a "Special Message to Congress on Fiscal Policy" in which he said: "Every effort will be made to ease the inequitable burden of high interest rates and tight money" (Johnson, 1966, p. 985). The Council of Economic Advisors' (CEA) section of the 1967 Economic Report carried a discussion of monetary policy with emphasis on its "inherent limitations", in particular the "special sensitivities" and "uneven magnitude and timing" of its effects.

Blinder and Goldfeld (1976) cite rising discount rates from 1963-66, culminating in the 1966 "credit crunch", as having significantly negative effects on aggregate demand. The interest rate and inflation picture is shown in Figures 5.1 and 5.2. Yet at the same time that Johnson was moving for tax surcharges against low but rising rates of inflation (early 1967), the Federal Reserve reversed its policy.

The Federal Reserve followed a policy of credit restraint during most of 1966, but shifted monetary policy to an easier stance in the fall as inflationary pressures abated.

Interest rates began to decline from their late summer highs partly because expectations for rising rates abated. Market attitudes were influenced in September by proposed restraining fiscal measures ... (Federal Reserve Bulletin, February 1967, pgs. 187 & 188.)

While this was occurring, Johnson was being chastised for failing to apply more restrictive measures.

Q. Mr. President, are you sorry, the way some economists say you should be, that you did not raise taxes last spring?

The President: I am not aware of any economists who have said that to me. (Johnson, 1966, p. 997.)

Johnson called for fiscal restraint through a cutback in Federal government expenditures (excluding the Great Society programs and the cost of the war in Vietnam) and the CEA called for a return to the voluntary wage and price "guideposts" initiated in 1962. Johnson had further attempted to apply restraint by calling for an end to the investment tax credits in September 1966. ["Restraint" is a euphemism for restricting the realization of surplus value and the availability



Figure 5.1. U.S. interest rates, 1961-85

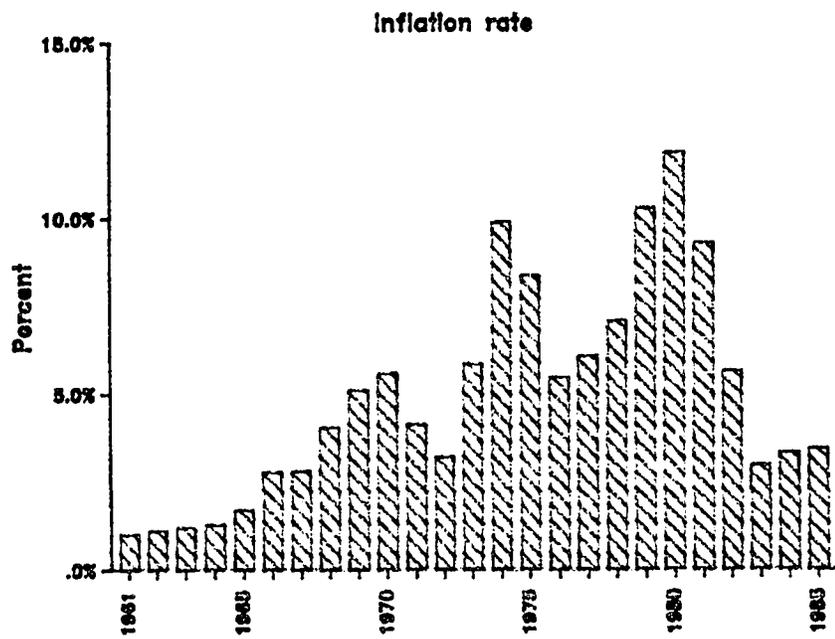


Figure 5.2. U.S. inflation rate, 1961-85.

of credit and thus creating pressure on wage levels and employment through changes in corporate liquidity.] The tax surcharges recommended by the 1967 Economic Report were 6% on corporate and personal income taxes, but these would not actually take effect until 1968 (at which time they would be 10% surcharges).

What Charles McClure (1972) argued was "a return to fiscal stability" was really the beginning of a policy dilemma caused by the changing nature of the tradeoff between economic growth and improved employment, on the one hand, and the rate of inflation on the other, i.e. the Phillips curve. From 1958 to 1968 a fairly stable negative relationship existed between the rate of inflation and the rate of unemployment (Figure 5.3). However this relationship began to change in 1969 and has not returned to any kind of stability. Figures 5.4 - 5.6 plot other relevant macroeconomic variables during the period.

Growth in national income had slowed dramatically in 1967, from 6-7% in 1965-66 to 2.5% in 1967. Unemployment was not immediately affected, probably because of the effect of the U.S. war in Vietnam. The rate of inflation as measured by the GNP implicit price deflator was up by about 1% point, to 3% in 1967, rising to 4.5% in 1968. Federal budget deficits were substantial in 1967, the greatest since 1958, but the budget turned to surplus in 1969 as result of the Johnson tax surcharge and other fiscal measures. Richard Nixon had the privilege of being one of the few Presidents in the modern era to preside over a budget surplus.

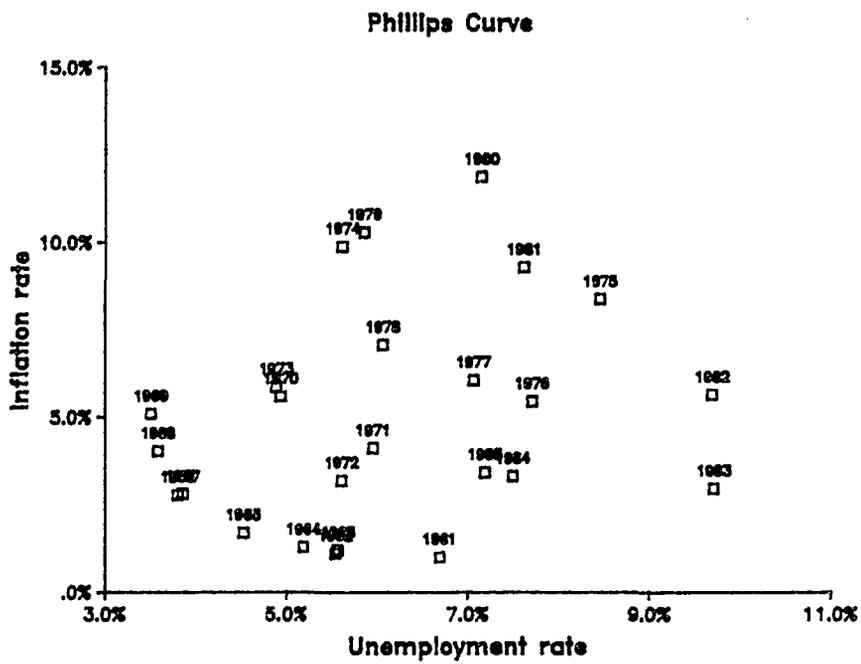


Figure 5.3. U.S. Phillips curve, 1961-1984.

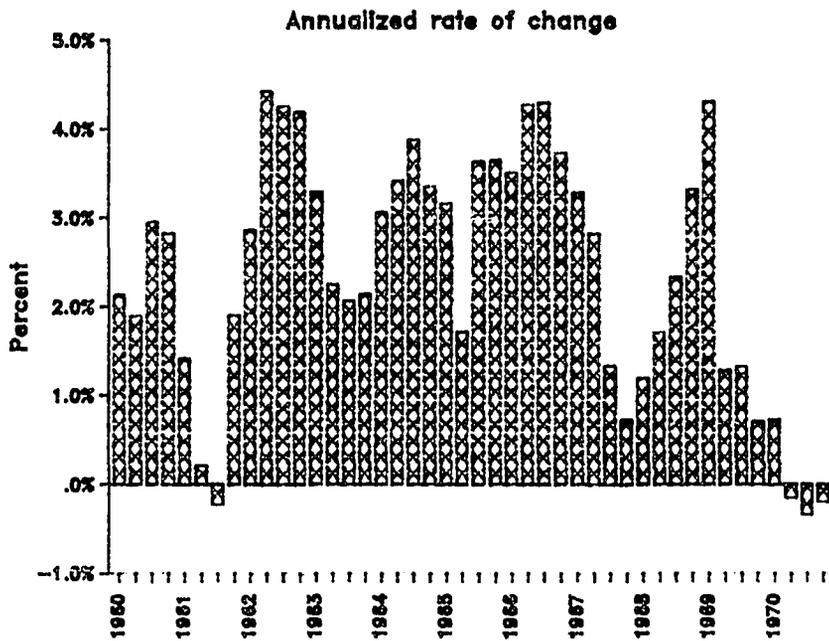
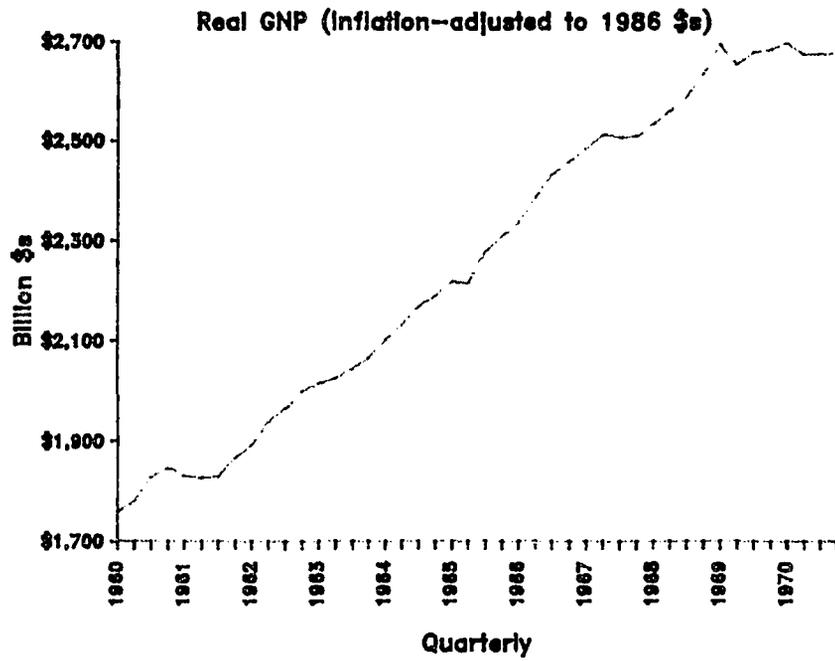


Figure 5.4. U.S. Gross National Product, 1960-70

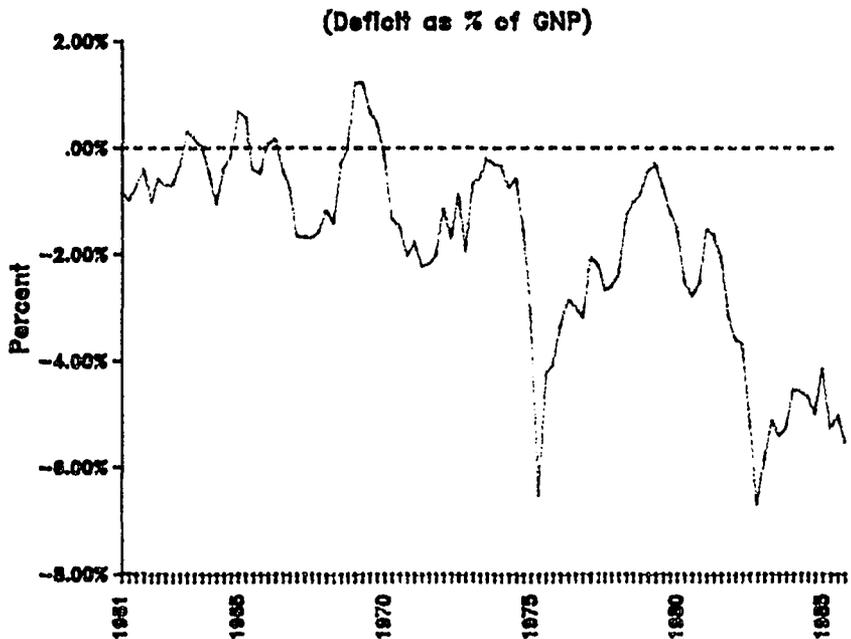
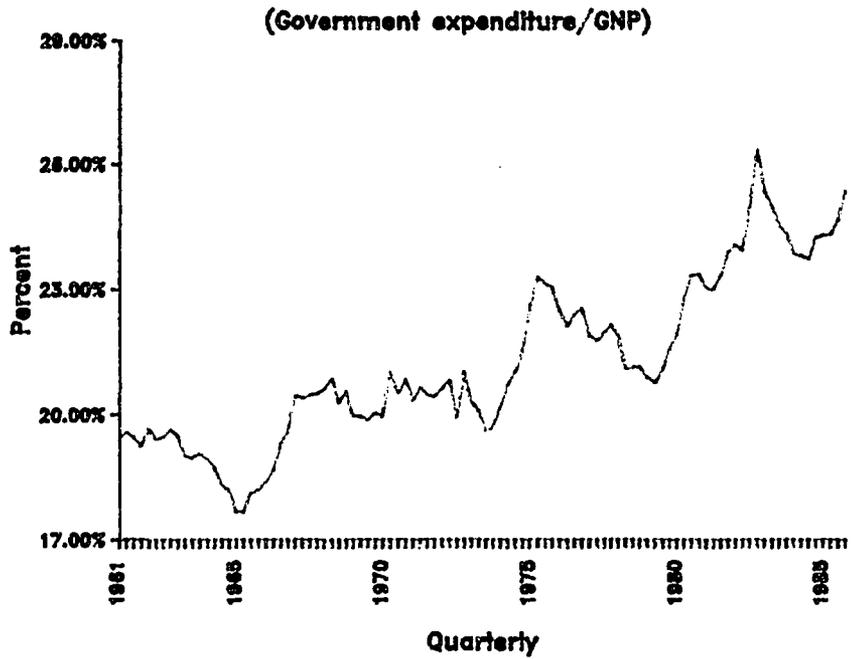


Figure 5.5. U.S. Federal budget balance, 1961-85

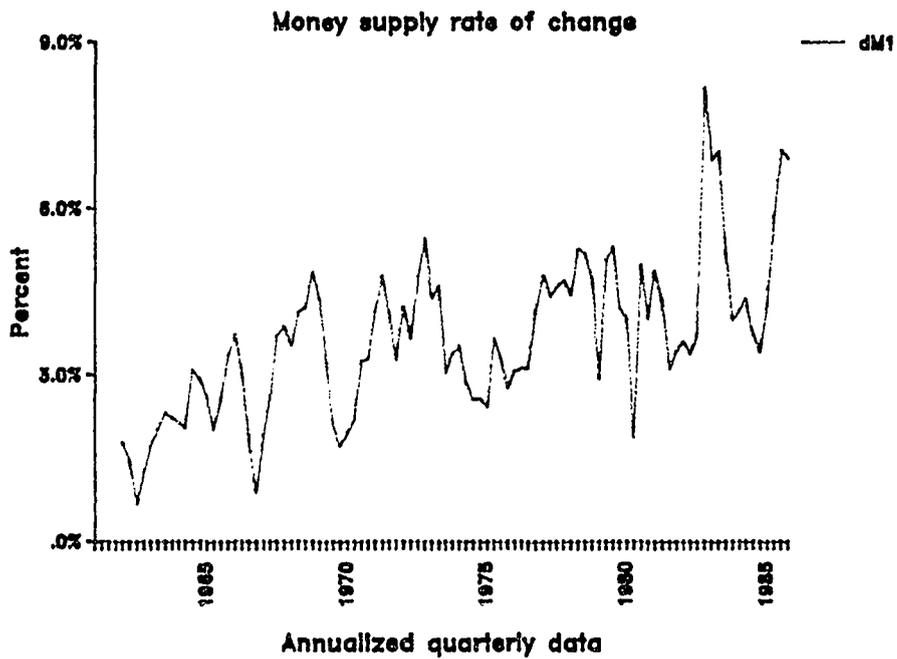
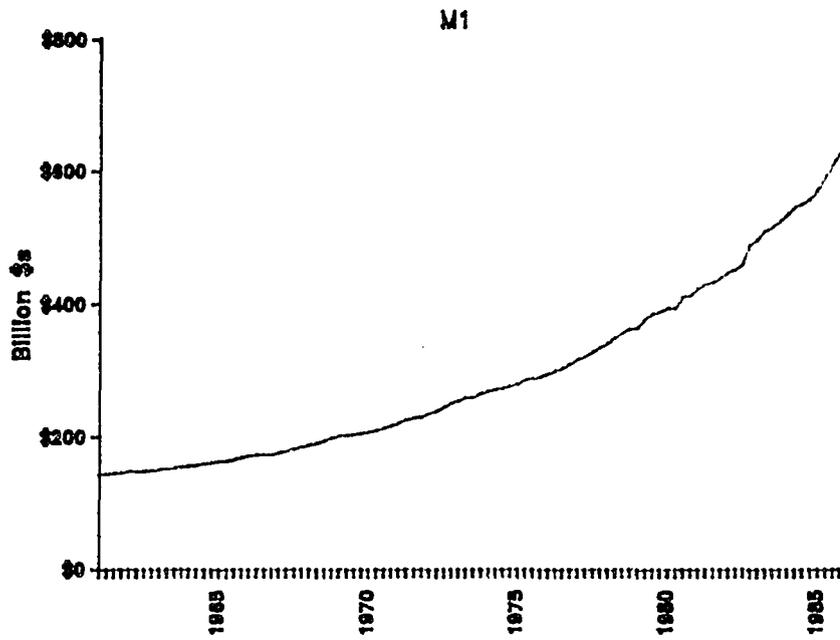


Figure 5.6. U.S. money supply, 1961-85.

Despite the well recounted clash over interest rates between Johnson and the Federal Reserve in 1965 and 1966, and evidence that the CEA wanted to increase taxes as early as 1965, the main conflict between a publicly activist fiscal policy and an operationally submerged monetary policy came with the 1968 tax surcharge and the Federal Reserve's pre-emptive expansion of the money supply. The fiscal effect was represented by a \$25 billion swing from deficit to surplus in the Federal budget (mid-1967 to mid-1968) while expansion of the money supply reached post-World War II records. Blinder and Goldfeld (1976) calculate that monetary policy exhibited "extraordinary variability" from 1966-1972, with periods of extreme stimulation from the 4th quarter of 1966 through the last quarter of 1968 and again from the 3rd quarter of 1970 through the first quarter of 1972, the latter period including \$100 billion of increased monetary multipliers.

The effect of these policy contradictions might be viewed as the worst of both worlds (recession and inflation), and as a symbol of the spheres in which fiscal and monetary policy operate. The restrictive fiscal policy actions of 1968 contributed to negative growth in 1969 and 1970, while the expansive monetary policy contributed to inflation.

From a Keynesian perspective, the problem began in 1966 with the recognition amongst many macroeconomists that inflation was likely because of the expanded U.S. budget deficit in the face of relatively full capacity. However, as McClure points out, even these economists underestimated the military build-up of the previous year because it

lay hidden in national income accounts as a boomlet of private investment (defense contractors tooling up and as inventories yet undelivered to the Pentagon) and in a budgetary underestimate of \$10 billion for Fiscal Year 1967 (McClure, 1972, p. 46.) Despite Johnson's request for a tax surcharge in September 1966, Congressional action was not forthcoming until 1968. The political effect was precisely predictable and Humphrey cited the surcharge as a major cause in his electoral loss to Nixon.

From a monetary perspective, two features might be important. On the one hand, William McChesney Martin, chairman of the Federal Reserve's Board of Governors, believed he was supporting the Johnson fiscal program. In advocating "supply-side" restoration of investment tax credits, Martin added:

[There is] no inconsistency in advocating termination of the investment tax credit suspension [through Johnson's 1966 executive action] now, and an increase in income taxes later this year. (Federal Reserve Bulletin, April 1967, p. 567.)

Martin's support for the tax surcharge was lengthy and complete, and his restraining actions in 1966 were applauded by the corporate sector.

The U.S. owes Martin and his colleagues at the Fed a considerable debt for bringing the economy safely through a potentially explosive period... Under the circumstances the Fed's course of restraint, despite the uproar it provoked along the way, deserves several rounds of applause. (Fortune magazine editorial, January 1967, p. 85.)

Fortune continued to cite the importance of a politically independent Federal Reserve despite hearings by the Joint Economic Committee of Congress challenging the lack of relationship between fiscal and monetary policy. In the same issue, Fortune's "Business Roundup" argued that "Federal fiscal policy, which notably failed to act as a restraint on the boom, does not promise to supply any stimulus now that the economy is turning" (Fortune, January 1967, p. 34). Two years later Martin would say:

In my judgement, monetary restraint is now fully reinforcing fiscal restraint. And fiscal restraint is becoming increasingly effective. In retrospect, it appears that while the Federal Reserve was overly optimistic in anticipating immediate benefits from fiscal restraint, the business community may have been overly hasty, last fall, in writing it off as a complete failure. (Federal Reserve Bulletin, March 1969, p. 238.)

On the other hand, from a macroeconomist's point of view, there was a question about the relationship between the Federal Reserve's monetary actions and the economy. Monetary policy was increasingly acknowledged to have longer lag times in its effects than fiscal policy (once applied) and that econometric knowledge of the monetary sector was at best quarterly, while the Federal Reserve was attempting to engage in day-to-day monetary management.

The standard conclusion from this experience was that even had political support for the tax surcharge been more forthcoming, the effect on stabilization would have still been uncertain. "As a

practical matter, the majority of federal expenditures are more or less uncontrollable within the time span for stabilization" (McClure, 1972, p. 32). Implementation lay in the highly public arena of Congress, where both time and public accountability of government for the performance of the nation's economy were unwelcome detriments to policy formation. Kennedy's attempts to obtain standby authority for differential tax rate and expenditure alterations (independent of Congressional action) to "fine tune" the economy may have been the only wholehearted attempt by the U.S. executive branch to centralize Keynesian macroeconomic policy. Of course, most other advanced capitalist countries have instituted such policy, which is probably a symptom of more cohesive working class opposition (through labor parties) to macroeconomic instability. Thereafter Nixon's use of executive impoundment and the growing role of the Office of Management and Budget represented less a fiscal policy and more a partisan political maneuver. Fiscal policy remains mired in Congress while monetary is even more quietly reserved to the central bank.

Cagan (1972) points out that although monetary policy first returned to importance in 1968, the basic shift in policy orientation did not occur until 1970, and even then Nixon's pragmatism reduced its saliency. The financial market crunches of early 1966 and 1970 had sufficiently strong impacts on investment to lead to substantial questions concerning the efficacy of interest rate policies. Therefore there was a shift toward manipulation of the money supply through sales and purchases of Federal bonds, a policy which might be considered to

assist larger and more liquid corporations which could either receive substantial discounts on market interest rates or finance their operations internally. By the mid-1970s such corporations were actively speculating in the bond markets.

McQuaid (1982) argues that an additional problem was the relationship between the Business Council and Johnson on tax and monetary policy in 1967. This problem began in the first few months of the Kennedy administration at which point the Business Council broke away from the Department of Commerce. Its history marks a shift in corporate macroeconomic policy interest from general budget policy (exemplified by the Committee for Economic Development) to class-conscious insertion into the executive branch. Johnson had curried the favor of the Business Council and had received corporate endorsements against the Hooverism of Barry Goldwater in the 1964 election. However the Business Council wanted a stronger reduction in government expenditures in 1967 than Johnson was initially willing to provide. Arthur Okun (1972) suggests that the Business Council seemed quite willing to accept unemployment increases to stem rising prices.

The ideological battles over the use of Keynesian fiscal policy were but preludes to a controlled (or mediated) expansion of economic intervention on the part of the state in which the "social democratic" element of Keynesianism would be totally marginalized. Once budget deficits were legitimized, then Presidents had much wider political

maneuverability. Once economic intervention was legitimized in fiscal policy, macroeconomic policy might be depoliticized through standby fiscal authority and reliance on the Federal Reserve.

Monetarism as Economics and Politics

The shift of macroeconomic policy regime from liberal Keynesianism to conservative monetarism took a number of years and was not truly implemented until Volker consolidated his leadership of the Federal Reserve during the Carter administration. However its ideological roots lay with the political kinship of the Republican party and its partisanship with the laissez faire economics of the leading monetarists such as Milton Friedman.

The quantity theory of money is the framework of monetarism. It posits that changes in nominal income (as compared to "real" output) are caused by an excess (or deficit) supply of money. If "real" output does not change (and this appears to be true in situations approaching "full" capacity), then prices must.

The quantity theory of money is a term evocative of a general approach rather than a label for a well-defined theory. The exact content of the approach varies from a truism defining the term "velocity" to an allegedly rigid and unchanging ratio between the quantity of money ... and the price level... Whatever its precise meaning, it is clear that the general approach fell into disrepute after the crash of 1929 and the subsequent Great Depression and only recently [mid-1950s] has been slowly re-emerging into professional respectability. (Friedman, 1969b, p. 51.)

That respectability is now such that monetarism is claimed by Keynesians, in the sense that "money matters" and reviled as a corrupted orthodoxy by the conservative opponents of the Federal Reserve (Cf. Evans, 1983, p. 70). Monetarism is both an economic theory and a political program, a program which links Friedman's micro-economic understanding of the capitalist system as requiring (and reveling in) a free market for prices and his disciplining "positive economics." In this Friedman is a political activist, much more so than his positivist message which dominates the economic profession. Undoubtedly his most pervasive political polemic has been with the Federal Reserve, summed up in the era of Ronald Reagan's conservative revolution by the following Wall Street Journal appeal from Friedman and a number of colleagues: "The Fed's monetarism was never anything but rhetoric" (Wall Street Journal, 1985, p. 28).

Interpretations of recent monetary history are laden with the theoretical and political debates over the legacy of the Great Depression. Turnovsky and Wohar (1984) find that monetarist conceptions about the behavior of the economy are borne out in the period since 1961, but not well before 1961. In the period before 1961, the basic neutrality of macroeconomic policy (a "New Classical Economics" proposition maintaining that only unanticipated changes in macroeconomic control variables will show real effects) does not hold, i.e. a long-term trade off exists between unemployment and monetary growth between 1923 and 1960. From 1961, the basic neutrality of money appears to be sustained, but not by itself.

Upon closer investigation it appears that the crucial long-run neutrality characterizing these findings is essentially generated by government policy. (Turnovsky, 1984, p. 627.)

The mechanism for this generated "neutrality" is indeed a monetary phenomenon, but it is not an exogenous factor. It is generated by the "reaction functions" of policy makers, their tendency to adjust monetary growth rates to conditions in the macroeconomy. Interpretation of the relationship between the supply of money and the economy is at best confounded by the implementation of policy because money is both an input and an output of production and a product of political choice.

The purpose of monetary policy is to influence the evolution of the economy... The difficulty faced by the policy maker is to know just what effect the changes in the instruments are having on the economy. (Davidson, 1983, p. 406.)

Friedman stressed his belief that monetary (and fiscal) policy cannot be effective in the very short-run, and that in the long-run it is more likely that an interventionist macroeconomic policy will harm rather than assist the economy. He even chose to eschew short-term analysis entirely in his Monetary Trends in the U.S. (1982, with Anna Schwartz), which has led a number of reviewers to ask what the point is:

The erratic movements which F-S [Friedman and Schwartz] are at pains to eliminate [through decycling their data] are precisely what is of interest to others, particularly those concerned with countercyclical policy. Their findings are, therefore, consistent with a world in which Keynesian models have a large role to play. (Mayer, 1982b, p. 1531.)

Monetarism is an economic paradigm and ideology which concentrates authority in one aspect of the economic structure -- the banking system -- which not so coincidentally is shielded from popular (which is not to say political) intrusion as well as from major influence from the non-financial segment of the corporate world. Monetarism also encompasses a world view concerning the role of government in capitalist society, an ideological role of particular utility in a period of capitalist reconstruction:

If the revisionists can show that the trauma of the thirties was itself the consequence of action by a public authority -- the Federal Reserve System -- they can then argue that there is no legitimate macroeconomic basis for activist government, and they can argue that the apparent popular support for such activism is a correctable error. (Mayhew, 1983, p. 355.)

The political dimension of the Federal Reserve's quasi-public status is a real contradiction for the conservative-libertarian perspective. A collection of essays and commentary about the relationship between public disclosure and financial accountability for the Federal Reserve begins with the following admission:

Although the direct economic consequences of disclosure would be positive, greater disclosure, especially in the form of open meetings, is likely to result in more political pressures being brought to bear on the Federal Reserve decision makers. (Erb, 1978, p. 12.)

It is probably the character of the operations of the Federal Reserve, its tendencies and its composition, which elicits the most political controversy.

The Federal Reserve as a Policy Institution

Despite the political visibility of Federal Reserve actions and of the disputes between the Reserve Board's various chairmen, Presidents, and Congresses, the Federal Reserve remains the quintessential body of the state whose operation has been hypothesized and whose policies observed but whose constituent relations are at best poorly revealed from within its doors.

The history of the Federal Reserve is the history of finance in the United States and of frequently failed attempts to centralize control of the currency. Its operation as a quasi-public institution and its ability to maintain secret its means of operation have fascinated the non-banking world. At regular intervals the Congress attempts to open those doors, and occasionally former staff members of the Federal Reserve write restrained exposes. At the same time, monetarist critics have attempted to neutralize the money supply by reducing the Federal Reserve's monetary role to that of keepers of guidelines and formulae. Attempting to evaluate the purposes and future actions of the Board (especially the Federal Open Market Committee), an agency whose primary face to the public is its Friday afternoon announcement of monetary policy actions (this indeed a long-resisted concession to openness), has become a trade akin to soothsaying. For our purposes, the secrets behind the door are less important than the reasons for those secrets.

The Federal Reserve was formed in 1913 following the financial panic of 1907. It coincided with the electoral victory of the Democratic Party (Wilson) and the marginalization of William Jennings Bryan as a monetary populist. However, although the purpose of the new central bank was to centralize control over the currency, such was not to be the case. The original Act created 12 Reserve Banks and monetary control was vested with the New York Reserve. Following the bank failures of the Great Depression the system was centralized somewhat, but its regional character is still important, especially in its regulatory functions.

"National banks" were required by law to join the system, and they finance its assets. These assets provided the initial operating funds for the system but also provided the reserve accounts which would become the primary basis for monetary policy. The Reserve Banks have three classes of directors which symbolize the character of the system: class A directors come from the member banks, class B directors are nominated by member banks from the business community, and class C directors are chosen from the public. The Board of Governors in Washington, D.C. is composed of seven public members who are appointed by the President and are often seen as the means for public control over the banking system (Cf. Woolley, 1984, p. 42). Although the Board of Governors dominates formal decision making, the regional reserve banks have tremendous latitude in their activities with member banks.

Galbraith argues that the composition of the Federal Reserve was a classic political maneuver:

The old compromise ... had given to the financial community the good banks and the sound currency that it wanted. To the frontier and the farms it allowed the casual banking that, not without reason, the agrarians saw as serving their interest. ... The Federal Reserve was a club of the great and the strong. (Galbraith, 1975, p. 126-7.)

This compromise was severely tested during the Great Depression and in a number of regional banking crises since then.

The Federal Reserve's primary functions are regulation of banking activities and implementation of monetary policy. However, current financial operations in the United States suggest a melding of these functions. The Nader committee on Citibank argued that the major banks have the ability to overwhelm interest rate regulations and other forms of credit restraint, and thus it is increasingly difficult for the Federal Reserve to exert the influence it expects on the money supply (Leinsdorf, 1973, p. 305 ff). Furthermore, new forms of money, including certificates of deposit, NOW accounts, foreign bank funds, and electronic transfers, increase the turnover rate ("velocity") of the money stock and provide additional reserves for stretching lending limits. At the same time, Keynes' "liquidity trap," the situation in which borrowers are insensitive to changes in the interest rate, and the capacity for corporations to internally finance investment, may also serve to reduce the efficiency of Federal Reserve actions.

Control of monetary aggregates by the New York Reserve Bank in the early years was viewed as natural given the weight of the New York banks in the U.S. financial system. Although there is even greater banking centralization in New York today (Cf. Pastre, 1981) and arguments that it was only the New York Reserve Bank which took effective monetary action in 1929-33 (Cf. Mayhew, 1983), the strength of regional political centers made such obvious bias in the control of public policy untenable. Formal monetary policy formation was shifted to Washington in 1923 although only New York has a permanent seat on the Federal Open Market Committee.

The most complete institutional analysis of the Federal Reserve comes from Woolley's Monetary Politics (1984). In this he dissects the composition of the Board, its personnel and staff, the relationship of bankers to the Board, and the political links between the Board, on the one hand, and the President and Congress on the other. Woolley's analysis of Board personnel convincingly supports the perspective of elite dominance of state institutions.

I will argue that the process of selecting and evaluating candidates guarantees that appointees are responsible, moderate, and known to relevant technical groups. I will also point out that in terms of educational background, Federal Reserve personnel closely resemble top officials in both the public and private sectors. (Woolley, 1984, p. 49.)

The respectful argue that the pluralism of public interest predominates:

The ability of the Reserve System to follow a course of action that it deems in the best interests of the nation, even though this course is opposed by the administration, depends on the respect and prestige that the officials of the Reserve System command in the community. (Beckhart, 1972, p. 49.)

However, if the transmission of technical debate on monetary phenomena amongst economists into public policy through an institution of corporate sensitivities is as difficult (Hodgman, 1983) or as inefficient and unsophisticated (Mayer, 1982a) as some critics argue, then immediate and intentional political beneficiaries of Federal Reserve policy may be impossible to discover.

Woolley fails to explore in any detail differences within the banking system and how these might affect Federal Reserve policy, except in the case of interstate banking. The Federal Reserve is viewed as an ally to an undifferentiated banking sector:

Even if bankers do not shape Federal Reserve decisions in an ongoing, detailed way, and even if many Federal Reserve officials have disdain for bankers' economic expertise, the Federal Reserve is still a central bank. It is socially and politically close to banks and banking. This is important because the Federal Reserve is not simply a passive reflection of pressures from its environment. When considering the actions initiated by the Federal Reserve, can we seriously believe that these actions will not reflect the System's history, its constituency, and the values of its carefully selected officials? (Woolley, 1984, p. 87.)

Such that the interests of the banking sector are undifferentiated, the Federal Reserve is likely to be amenable to them. Such that there are

fractions within the banking community, as there often are, these are likely to be obscured by the Federal Reserve's institutional structure.

On the other hand, a partnership may be observed in the relationship of the Federal Reserve to the President and Congress. Woolley is unabashed about this:

In the relatively few studies on the question, there is substantial consensus that presidents generally get the monetary policy they want from the Federal Reserve. (Woolley, 1984, p. 11.)

In light of the heat and rhetorical combat between Presidents and the chairmen of the Federal Reserve, this might be viewed as an astonishing conclusion. However it is supported by the mainstream of the economics profession.

The power and influence of the Federal Reserve in over-all macroeconomic policy making has usually been greatest when its distance from the administration has been least, and least when its distance has been greatest. (Bach, 1971, p. 163.)

Blinder and Goldfeld found a tighter affinity of the Federal Reserve to Republican rather than Democratic administrations, but not substantially (Blinder, 1976, p. 792).

The exchange between Johnson and the Federal Reserve in 1965 reflects the areas of greatest political attention in monetary policy, the setting of interest rates. It is generally believed amongst macroeconomists that the supply of money is the key monetary variable affecting the financial community, and that interest rates are but

manifestations of the supply of money. However it is the discount rate charged by the Federal Reserve on loans to its member banks which receives the most attention because interest rates have clear income distributional effects while the effects of monetary aggregates is less certain. It is interesting to note that as the Federal Reserve has become the "refuge center" of activist macroeconomic policy in the United States, it has tended to emphasize the less politically visible monetary aggregates. Indeed, this was part of the famous "Volker departure" in 1979 from interest rate targets. (Cf. Melton, 1985).

Harrilesky argues that the Federal Reserve is not responsive to Congressional intent concerning economic stability, but that the Board is responsive to its immediate constituents:

The monetary authority in recent years [1964-74] has too easily submitted to pressure for low interest rates. The presence of a "low-interest rate lobby" from the Savings and Loan industry, the housing industry, and other sectors of the economy have facilitated and even helped the Fed rationalize its chronic compliance with the traditional, easy money proclivities of central government.
(Harrilesky, 1975, p. 851.)

The record nominal interest rates during the Carter and early Reagan administrations, and the record inflation-adjusted rates during the later Reagan administration, suggest that the pressure from these sectors of the economy is less significant. It also appears that the Federal Reserve has become more sensitive to such criticism and thus to the threat of Congressional oversight that such distributional issues

generate. This concurs with the more conservative approach of Mayer who argues that the Board becomes "mesmerized by existing banking crises and the potential for Congressional action" (Mayer, 1982a, p. 268). As Woolley points out:

Despite the fact that the Federal Reserve's larger role is apparently sustained by its political circumstances, the actual performance of that role is contingent on permissive short-term political forces. (Woolley, 1984, p. 189.)

As a component of the capitalist state, the Federal Reserve is sensitive to the power relations which sustain it. In this there is little question: the Federal Reserve is a creature of the traditional and dominant banking sector of the United States. However the Federal Reserve also acts in light of wider political forces; in this it is like the "autonomous state", acting on behalf of the capitalist class. The political sparring between the Federal Reserve and partisan political bodies (the President and Congress) is not just a feature of bureaucratic self-justification (Cf. Newton, 1983, p. 110) but reflects the differences within the capitalist class on which public policy will be conducted. The early 1980s struggle between the Reagan administration and Paul Volker is a good example of these differences, and while Presidents usually get the monetary policy they want, they don't necessarily get it as they want.

The Federal Reserve responds to the scale of its demands primarily as a structural institution: its main reason for existence is the long-run stability of the financial system. This disagrees with monetarists

such as Lombra who argue that the short-term pressures on the Federal Reserve require the adoption of control theory methods to overcome political myopia (Cf. Mayer, 1982a, p. 271). But, long-run issues are relevant when they are important:

Unified pressure from the financial sector focusing on long-run rather than short-run problems is expected only when inflation has unambiguously become a problem for most financial sector participants. Similarly, there is some evidence that conflicts between the president and the Federal Reserve about policy objectives are likely to occur around turning points in the business cycle, when economic conditions are extreme, than at other times. In short, the nature of the short-run political forces focused on the Federal Reserve are linked in a regular way to the performance of the economy. (Woolley, 1984, p. 193.)

The Federal Reserve took on the long-run responsibility to reduce inflation with the appointment of Paul Volker in 1979. Although criticized by monetarists for acting with too much discretion (and causing greater monetary fluctuation than necessary), the Federal Reserve appears again to be quintessential in its structural defense of the U.S. economic system and the power bloc.

Monetary policy has been used in an explicit manner for much longer than fiscal policy, and given its institutional structure, it is not surprising that it again takes precedence. Its charm in a period of economic stagnation is its invisibility, and its power in a period of political uncertainty is its executive nature. It acts as a refuge center for finance and multinational capital.

However monetary policy has a number of technical problems which reduce its salience as a responsive public policy. Its uncertain timing and its strong sectoral effects reduce its generality, and one of its greatest problems may be its linkage to the international sector, the topic of the next chapter.

CHAPTER 6

GOLDFINGERS: International Aspects of Macroeconomic Policy

Introduction

Richard Nixon's New Economic Policy (NEP), the price controls program initiated in August 1971, stood conceptually, if not entirely chronologically, between liberal reliance on fiscal policy and conservative emphasis on monetary policy. However, the NEP was not only a milestone in domestic macroeconomic policy orientation, it also involved the end of U.S. commitment to backing the dollar, the international reserve currency, with gold. This was the first major step in dismantling the post-World War II international economic order institutionalized at Bretton Woods in 1944.

This chapter concentrates on the relativity of interdependence and autonomy among the major industrial economies as central to the potential for effective macroeconomic policy formation. Other important internationalist issues include the extent to which international economic and political integration has created a "world system" which stands as progenitor of underdevelopment, and the nature

of inter-capitalist competition in trade and finance. However these issues are secondary to the gist of this dissertation. The main question is, to what extent is domestic macroeconomic policy effective in an environment where domestic affairs are examined internationally, where national macroeconomic policy is affected by international economic linkages, and where the domestic macroeconomy affects relations with the rest of the world?

The previous three chapters highlighted a historical progression of ruling macroeconomic ideology and policy in the United States. The post-World War II period represents an evolution of the hegemonic U.S. free trade position from one based on the reserve position of the dollar to a nuance of that policy reflecting diminished U.S. national hegemony and increased multinational corporate influence on international economic linkages and policy. This evolution is marked by a few specific political instances, such as the NEP, but to a greater extent it represents "work in progress," a developing plurality of transnational economic interests whose weight vis-a-vis individual nation states is not assured.

This chapter begins with an examination of the relationship of capital to political institutions in the context of the conflict between "national" political economies and international capital. Arguments concerning the nature of the capitalist world economic order in the latter quarter of the 20th century are reviewed, the

transmission of macroeconomic effects across borders is investigated, and the importance of international economic organizations is discussed.

International Economic Crisis and the State

The history of capitalism shows that state forms arise in crisis and are developed through decades of social reorganization. These forms have what might be viewed as a surprising homogeneity in this century.

In contrast to previous modes of production, there are not just a multiplicity of particular states whose forms reflect and result from the particular history of each society. The increasing domination and extension of the capitalist mode of production produces a convergence in the structure and shape of individual states. (Holloway, 1978, p. 29.)

This similarity of state forms between nations increases the ability of state managers to communicate with their counterparts and to develop plans, but it does not form the basis for policy implementation. The latter requires a transformation of the economic, political and social conditions which are the foundation of conjunctural political processes.

What type of crisis might generate international macroeconomic regulation? If the catastrophic element of capitalism is realized in a purely economic way (which frankly I doubt), then multi-state coordinating bodies along the lines of the EEC and the OECD might be vested with real powers through the apparent weakening of national powers. The most obvious area for this occurrence would be in

development of an international currency (or currency basis) which would allow an international monetary policy to be implemented. To the extent that monetary policy is regulatory rather than enabling (as fiscal policy may be), crises over national budget imbalances would continue. Resolution of these problems implies substantial weakening of the sovereignty of nation-states and the development of new state federations. However it seems likely that much more than economic crisis would be required to divest nations of their states, or even of their discretion in taxation and spending.

To raise the question of international economic organization is to move explicitly into the central issue of modern state theory -- the extent of the relative autonomy of the state. Block (1980) makes this linkage in his criticism of the instrumentalist critique of the Trilateral Commission. Questions about the current and potential role of the Trilateral Commission, he argues, raise the old debate about the ability of capitalist states to negotiate their differences, the question of superimperialism against competitive imperialism. At present the international issue is not resolved, except to note that political divisions within nation states can seriously restrict supra-state political projects. This suggests that at the current level of economic and political development, the conditions for a supranational state with relative autonomy do not exist.

The international dimension of macroeconomic policy also shows the contradictory aspect of the capitalist economy: it internationalizes the relations of production and circulation, but, as with its predecessor historical social systems, its self-organization is severely limited by an historical constellation of institutional relations. Thus, the nation states which were consolidated in early capitalism may be no longer functional for capital, but they persist through social relations such as nationalism.

International economic relations have differed historically from national relations in four aspects: the relative immobility of labor and real capital across borders, restraints on commodity exchange across borders, valuation on different monetary bases, and nationally specific economic relations. Transnationalization has had a tremendous impact on all of these relations, yet it is certain that each of these relations is still substantially bounded, if not determined, by the nation-state. Indeed, if one interprets the post-Nixon period in the United States as the institutionalization of the free trade state, and one notices that it may be only by the particular conjuncture of the Reagan presidency that vehement protectionism has been avoided in a period of relative industrial relations passivity, then one can see the particular political strength of the nation-state in inter-state relations. The present constellation of nation-states is probably the (near) future conjunction, barring historical calamity.

Can the coordination of macroeconomic policies across national boundaries, as is proposed by the Trilateral Commission and as is "practiced" by the OECD, be a practical alternative to inter-state competition in macroeconomic policy? In the first place, until the transnationalization of capital attains the depth in which the privatized accumulation of capital generates transnational social reproduction, such coordination is voluntaristic and utopian. Even so, such coordination would require great technical mastery because of the four elements cited above, added to the domestic macroeconomic policy mix. Therefore it seems likely that the interim internationalist tendency in macroeconomic policy will be toward monetarism, policies which are a "refuge" from direct enfranchisement. Fiscal policy will carry the domestic burden of reallocation among constituencies. It will also bear the weight of international adjustments. Multinational corporations will be able to operate with relative independence from monetary restraints (and thus are likely to support this form of international integration) while national corporations will be faced with the weight of arguing against the ideology of international economic integration, the resources of the multinational corporations, and the policies of a sound international currency. The labor movement will be further delegitimized as a political force by its lack of access to these instruments and by its nationalism. None of these reactions is linear, but each seems likely, based on the composition of power around class fractions whose dominance arises from their transnationalism.

To the extent that national power maintains, it would tend to be reactionary. To the extent that international power grows, macro-economics would be depoliticized for as long as political movements are nation-bound. The "micro" social struggles with economic impetus will be overwhelmed by wider economic forces. Such is already occurring with the problem of run-away shops in the United States. Such "regional" crises will not be avoided, they will simply be marginalized. The story of declining living standards in the United States since 1974/75 is a fascinating story of a people's ability to avoid the implications of that reality when faced with no political leadership. Still, domestic and international sources of political crises are sufficiently numerous, and advanced capitalist state competition with Third world states is still sufficiently deep, that the question of politics is raised more broadly. The "legacy" of Nixon's New Economic Policy, with its incipient corporatism and industrial policy, has been overwhelmed by the nearly neglected aspect of that program, the political internationalization of capital.

The currency convertability/exchange rate aspect of the NEP was an attempt by the U.S. state to free U.S. corporate international economic relations from the political intervention of rival states. This policy position has had a particularly salutary effect on U.S. multinationals which were in position to take advantage of the capital mobility and currency manipulations which flexible exchange rates

promoted. However, in intervening years the competition from rival multinationals has intensified. These processes are greatest where capital is most mobile, the transnational banking sector.

The immediate locus for the international aspect of the NEP was the movement of the U.S. balance of trade into deficit. This meant extraordinary balance of payments difficulties at fixed exchange rates, since export earnings had been counted on consistently to offset capital outflows and military aid (Hunt, 1972, p. 126). The crisis in the balance of payments eventually culminated in the formal adoption of flexible exchange rates in 1976.

Milton Friedman had said that flexible exchange rates would "harmonize our relatively small foreign trade sector with the rest of our massive economy and the rest of the world." Furthermore:

It would reduce problems of foreign payments to their proper dimensions and remove them as a major consideration in governmental policy about domestic matters and as a major preoccupation in international political negotiations. (Friedman, 1969a, p. 192.)

As it turned out, flexible exchange rates have also served to "harmonize" the relatively larger balance of payments volume (capital flows) with international finance and have intensified the transmission of macroeconomic effects, and policies, across borders. Whether the impotence of recent international economic summits is a feature of the philosophical hegemony on free trade (or free trade in currencies!) is uncertain. However, the great struggles between nations as witnessed in

the past over devaluations and revaluations are no longer seen, despite continued rhetorical contestation. In this, Friedman was correct. It is not even clear that protectionist policies will have much effect in this environment. The major international conflict within the advanced capitalist world (as opposed to the considerably different problems involving the less developed countries) is now the battle between world-ranging corporations against nationally-bounded corporations and labor.

It is also interesting that the movement toward flexible exchange rates represents a clear victory for academic economics over pragmatic national political economy. The technical role of economists is usually invisible, but one of the enduring traits of the political organization of large scale capital has been economic education. Conference Board, Committee for Economic Development, and Trilateral Commission studies have not been sponsored for purely academic reasons: the interplay of academic findings and corporate self-interest has a long-term payoff. An important theme in the history of macroeconomic policy is that social structure does not preclude the active, reflexive character of human conduct. In fact, social structure seeks to enable that practice.

Finally, the NEP can be seen to represent the high point of explicit interventionist macroeconomic policy, and it is important to reflect on how it has served as a symbol of failed liberalism. Understanding this episode provides a political linkage between early Keynesian views of government economic stabilization and later neo-

classical views of economic reification. I believe it can be argued that the controls portion of the NEP was characterized by the ruling elite as a failure primarily because it posed the potential of generalized government intervention in microeconomic phenomena, i.e. in the ability of firms to set prices, wages and dividends. It was the most dramatic extension of the politicization of state-economy relations which many critics in the late 1960s and early 1970s were expecting (Cf. Snyder, 1972). Thus the immediate dismantling of the NEP contributed to the ideological hegemony of the "free market" intellectual tradition promoted by Milton Friedman. The interventionist logic of liberalism had been taken to its zenith, and it had failed on domestic policy grounds. That this conclusion bears false witness to the controls episode is less important than the impetus it gave Ford and Carter's deregulatory policies and the social Darwinism (with apologies to the Beagle voyager) of Reagan. The domestic content of these issues is readdressed in the next chapter. That the international economic freedom gained through the NEP has become so accepted as to be forgotten speaks to the success of international capital.

International Capital

The economic questions of state and nation begin with the composition of capital. The economic relations which constitute the capitalist state are not inherently bound by geographical dimensions, although the factors which provide the cohesion for the ruling elite and the institutions of the state (including its national ideology)

have historically included a preponderant national component based on an historical mode of production. This section reviews arguments concerning the nature of international capital, picking up a thread from Chapter 2. These arguments begin with historical perspectives on the long-term development of modes of production but proceed to concrete and current differences on the nature of contemporary international economic relations.

The key economic difference in the debate between the mode of production adherents and the world systems proponents is the relative significance of commodity exchange and conditions of production in determining the basic systemic dynamics in concrete social formations. The mode of production approach emphasizes the central dynamic of "capital in general" in the industrial structure without foreclosing the significance of "capital in particular" in the political structure.

Capital by its very nature tolerates no geographical limits to its expansion. Its historical ascent led to the leveling of regional boundaries and the formation of large national markets, which laid the foundation for the creation of the modern state. Hardly had capital penetrated into the sphere of production, however, before its expansion brushed aside these national limits as well. ... The relation between the national and international expansion of capital thus determined a combined structure from the start. (Mandel, 1975, p. 310-311.)

Mandel argues that continuing "inter-imperialist competition" is the most likely mode of international "organization," whose basis is the nature of nationally-determined transnational (or multinational) corporate growth (Held, 1983, p. 534).

Not only has the capitalist (and portions of the socialist) world economy become increasingly integrated, its dynamic has also become more synchronized with the linkages of the advanced capitalist economies. Mandel put it this way:

The generalized recession [of 1974-75] will be the most serious recession of the postwar period, precisely because it is generalized. ... The international synchronization of the conjunctural ups and downs in the main imperialist countries is intensifying the decline in economic activity.

This synchronization is not an accidental feature. It results from the deeper economic transformations that occurred during the long period of expansion that preceded the recession. (Mandel, 1975a, p. 4.)

International linkages are not only more direct but also more immediate than was historically the case. This points to the increased importance of "capital in general" in structuring capitalist socio-political relations. As macroeconomic phenomena cross borders, the basis for the development of transnational ruling class structures increases.

The primary force behind this economic synchronization is the internationalization of production resulting from the simultaneous reconstruction of the post-World War II advanced capitalist economies and application of new industrial technology to industrial production, which increased the organic composition of capital and reduced the reserve army of unemployment, leading to a concomitant decline in the rate of surplus value. International synchronization of macroeconomic

processes has been augmented by inflationary attempts to forestall domestic unrest, the cost of the war in Vietnam (and other aspects of the Cold War and wars against national liberation), and finally, by an increased commonality of anti-crisis policies, despite aspects of increased inter-capitalist competition and rivalry. In other words, the uneven nature of capitalist development became intractably combined in the mid-1970s with the international penetration of capital in almost all aspects of national economies.

However, MacEwan (1984) argues that synchronization of real outputs is primarily a feature of international liquidity.

Even while the policy prescriptions of economic advisers to different countries may vary in theory, in practice the degree of interdependence that exists in financial markets (as well as the capital mobility associated with direct investment) forces a homogeneity of policy. (MacEwan, 1984, p. 76.)

MacEwan, writing in a slightly later period than Mandel, reflects the increasing weight of international currency flows in macroeconomic deliberations.

Synchronization also promotes and is nurtured by parallel social movements and political developments. Castells emphasizes the increasing "regulatory" role of government and the problems of an internationally restive working class:

We are living in an economic crisis caused by a general process of social disruption in most advanced capitalist societies, which has called into question the structure of the social relationships underlying the pattern of capital accumulation. (Castells, 1980, p. 5.)

Generalized economic linkages and international socio-political movements, combined with the transnationalization of business, provide the rationale for supranational regulation of economic affairs. Indeed, social phenomena may play a crucial role as impetus for the development of authoritative supranational state bodies. However the institutional basis for international economic regulation has not yet been developed.

Political phenomena reflect not only underlying social and economic trends, the basic structural dynamic of society, they also reflect the particular strengths, idiosyncrasies, and historical moments of the personal and class relations which constitute that society. International economic relations have traditionally been analyzed as anonymous moments inbetween the relations of nations. Yet these relations may have a stronger importance as disaggregated elements than as national phenomena. International economic policy may provide specific benefits to particular fractions of capital, reflecting the competition of capital within and between nation-states.

However it is U.S. hegemony in the international macroeconomy which makes realistic an alternative to what might be an economically more efficacious multinational state. And this hegemony has been shaken. Aglietta concludes that the international economic situation in the early 1980s amounts to a crisis in the "normative schemas" which hold the international economic order together, with Japan as the key agent in breaking U.S. hegemony over world "regulation."

Finally the future of the world economy will continue to depend first and foremost upon whether U.S. preponderance is reconstituted or whether a new system of regional economies supersedes the current hierarchy ... this second possibility offers the greatest potential for the relaunching of sustained capital accumulation, yet it also involves the greatest risks of explosive class conflict and destructive inter-capitalist rivalry. (Aglietta, 1982, p. 41.)

Whether national economic interests are merged on an international scale is problematic, especially since modern macroeconomic policy has strong international linkages. Frieden points out that the "United States" is not itself a cohesive, homogeneous whole, and neither are other nations.

It is misleading to speak of a unified national bourgeois interest expressing itself in the international economic arena ... Certain fractions of the American bourgeoisie are dynamic, internationally competitive, aggressive free traders ... Others are stagnant, international uncompetitive and protectionist. (Frieden, 1982, p. 95.)

If the linkages discussed in the next section are decisive, the basis for conflict between national and multinational capital is intensified. The states of advanced capitalist world have favored multinational interests, but the political turmoil in the EEC shows the cost for such an orientation.

Since the world is not bounded by advanced industrial economies, the weight of the Third world economies and their international bodies (or influence in international bodies) has been the subject of considerable debate, ranging from the recycling of petro dollars to the debt crisis of the mid-1980s. One focus of departure is the highly

influential analysis of "progressive" elements in international economic integration put forward by Bill Warren (1978). Warren argued that internationally financed capital accumulation in the Third world (especially in the countries now euphemistically termed "newly industrializing countries") provided a means for breaking down the political bounds of imperialism (Warren, 1973, p. 41).

However Parboni argues that the shift of industrial production (particularly in a period when industrial production was bearing greater social costs) to countries such as South Korea and other "newly industrializing countries" was in effect a reward "for their subordination to the international division of labor imposed by the metropolitan countries" (Frieden, 1982, p. 91). The dependent nature of this form of economic development has made these economies even more highly subject to the vicissitudes of the business cycle. This is even more so than in the 1930s during which forms of independent industrialization developed in countries like Brazil in the space created by the collapse of world production centers.

The latter experience forms the basis for an argument in favor of the mode of development followed by the newly developing countries but this is a type of development which places these countries increasingly subject to the political intervention of bodies like the International Monetary Fund (IMF) in problems of international liquidity during periods of economic down swing. (It is worth mention that the "intervention" of the the IMF is less an intervention than a natural

invitation from a national leadership wedded to the norms of advanced transnational capital.) These newly industrializing countries are not less nationalistic than those which have preserved greater autonomy from the advanced capitalist countries, but they are closer to the norm of integrated capital than Mexico and India, examples of attempts at autonomous capitalist development.

In summary, there is a strong internationalizing trend occasioned by international capital. However, the international expression of this tendency has been muted by national forces and by problems in the international transmission of economic effects. These effects are now much stronger, and this may augment the natural willingness of political leaderships facing national constituencies to exercise constraints against the dynamic of international capital. The current conflict between the Reagan White House and protectionism in the United States is an example of this conflict.

International Macroeconomic Linkages

Several interpretations of the Great Depression cite protectionism in U.S. trade policy (especially the Hawley-Smoot Tariff of 1930) as a key component internationalizing and deepening the early effects of the credit crisis of 1929 (Galbraith, 1954; Brownlee, 1979). Still, defending domestic industries from foreign imports is a common political response to recession in the United States, just as controls on capital movements have been popular in other countries. The

relationship between the "external" sector and the domestic economy has always been uncertain, even more so today in an environment of interpenetration.

Issues pertaining to the international transmission of fiscal and monetary policy are extremely dense. The essential mechanism appears to be capital markets rather than commodity markets, which is not surprising given the short-term liquidity basis of most corporate policy. This may be a conjunctural phenomenon in a situation of inflation and relatively high interest rates, where future returns are highly discounted. However, it also corresponds to a diminished emphasis in advanced capitalist economies on production compared to services, and an emphasis on the redistribution rather than the creation of value. The technical debate about these effects has a substantial, but not definitive, impact on balance of payments policy and international macroeconomic policy coordination.

Frenkel and Razin identified the real rate of interest as the major variable in the transmission of fiscal effects and concluded that the international transmission of fiscal budget deficits is negative, i.e. has a depressive effect on other countries, because "the higher rate of interest lowers foreign wealth and consumption and reduces the foreign relative price of non-tradible goods" (Frenkel, 1985, p. 6). Given the relative performance of the U.S. economy compared to other advanced capitalist economies in 1986, this conclusion is particularly striking.

The United States adopted an expansionary course while the other major countries taken together followed a relatively contractionary course. Policies undertaken by the major economies affected the rest of the world through the integrated capital markets. (Frenkel, 1985, p. 1.)

They note that the explanation for the worldwide rise in interest rates is probably a monetary phenomenon, but they do not explore this side of domestic macroeconomic policy.

However, even linkages based on trade are tighter than individual countries acknowledge.

The perception of most countries singly that many of their problems flow from abroad is correct; but for the OECD countries as a group it is not true that most problems originate abroad. Many originate within the OECD area ... And others, which appear to emanate from outside the OECD area, are in fact often traceable back to earlier developments within the OECD area.
(OECD Economic Observer 33 (1983), p. 16.)

OECD countries import two thirds of their products from other OECD countries. Thus, domestic policies are increasingly "reinforced" by their impacts on export markets.

Almost all countries are more sensitive to the external sector than is the United States. Therefore, the impact of the transmission of international macroeconomic effects is less costly for the United States than its competitors (on a state level). The United States can finance huge domestic deficits by a relatively low increase in unemployment through policies which draw capital resources from other countries. Alt points this out in a political economy model.

The cumulative impact of a unit shock in world demand on domestic unemployment relative to the average unemployment in that country measures the extent to which domestic unemployment responds to the world economy ... Average unemployment 1980-83 increases with openness, implying that the cumulative effects of world recession explain individual countries' experience with unemployment. (Alt, 1986, p. 61.)

The traditional approach of international economics is to focus on trade and production phenomena as the locus of monetary movements. Strange explains the dominance of trade theory over monetary theory as follows:

Putting the main accent on protectionism serves to share the blame equally among all concerned... Power over money and finance, however, is much more asymmetrically distributed among governments, the United States standing clear above all others. (Strange, 1985, p. 6.)

Aglietta points out that monetary influences are transmitted by the international banking sector and have become an integral part of domestic economic policy and business behavior.

The world economy had found an endogenous method [the private banking system] of expanding liquidity in the form of international bank credit dollars. But if this expansion had become relatively unrelated to the U.S. balance of payments in quantitative terms, it remained highly sensitive to the monetary conditions obtaining in the United States. (Aglietta, 1985, p. 173.)

He suggests that the international debt crisis of the 1980s was strongly influenced by the 1979 monetary crunch in the United States. Currency crises may have relatively small domestic macroeconomic income effects in the short-run (especially for the United States where the

foreign sector is relatively small) but may generate strong domestic political effects through the power structure. Currency crises are the political reflection of exchange rate adjustment, but, as with trade, the process must be disaggregated to understand its distributional, and thus political, effects.

The application of basic economic principles is increasingly altered by the nature of late capitalism and its increased international linkages. This is the primary reason why the state-specific aspects of the international macroeconomy are uncertain. Critical of the received wisdom concerning flexible exchange rates, McKinnon points to the problems of international recession in altering the effect of currency adjustment.

Insofar as any resource slack exists, multinational and national enterprises will shift manufacturing production to that country with the undervalued currency and away from that country whose currency is overvalued. (McKinnon, 1981, p. 545.

This is a classical microeconomic phenomenon, and it is the essence of the adjustment process anticipated by Friedman. However this adjustment now depends on the availability of excess capacity, thus creating greater frictional costs than traditional theory suggests.

McKinnon cites the case of the relatively rapid recovery of investment in the United States following the 1974/75 recession, compared to sluggish investment in Japan, as resulting from the undervalued dollar. Because of the real impacts (capital investment) of these capital flows, the trade imbalance between the two countries was

unaffected by the devaluation of the dollar. Exchange rate adjustments have unpredictable effects on trade, while the rate of government budget balance appears to have a substantial effect through capital movements (Cf. McKinnon, 1981).

McKinnon also notes that monetary authority intervention to support exchange rates and the level of the international demand for currency have strong effects on the domestic money supply.

During most of 1977-78 the Federal Reserve Bank was responding to signals in the American money-market as if they were not dominated by expected dollar depreciation [i.e. foreign demand]. Both Keynesians ... and monetarists ... failed to spot the highly expansionary nature of American monetary policy in 1977-78 after the demand for dollars had fallen. Only after a major slide in the dollar's international value did the Fed enter with a convincing stabilization program on November 1, 1978, in which the domestic monetary base contracted by the amount of the official intervention. (McKinnon, 1981, p. 553.)

These transmission effects confound a macroeconomic policy oriented toward domestic constituencies, and they have not proven to be the impetus for international coordination in situations where judgments about the technical evidence and the national impacts of international adjustment cannot be moderated. However, as Tsoukalis points out:

The close coordination of national macroeconomic policies, implied in such an exchange rate arrangement, would mark a radical departure from the pattern established during the last decade. (Tsoukalis, 1985, p. 300.)

These questions of policy coordination underlay the importance of institutional forms possible in supranational organization.

The relative "isolation" of the United States in many international summits was assisted by the historical smallness of the U.S. external sector compared to its OECD competitors (as shown by in Tables 6.1 and 6.2). Clement (1966) points out that this difference in the relative weight of the U.S. economy to the individual economies of the rest of the world, and the high proportion of world trade and capital movements accounted by the United States, have a major effect on the international transmission mechanism. What could be ignored in the United States could not be ignored elsewhere.

The U.S. economy, because of size and autarky, felt less of the strains of an open economy and was less likely to adapt to these strains than any other participant in the world trading system. (Clement, 1966, p. 367.)

However, there have been two significant changes. First, the share of exports in the U.S. economy has grown substantially. Second, individual industries may have large foreign markets or competition from imports and thus be affected more than average by the rest of the world. This shift in the relative openness of the U.S. economy applies directly to the relative importance of different fractions of capital, and through the dynamic of economic growth, to the composition of the power bloc.

Table 6.1. -- The international sector of advanced capitalist economies, 1965 & 1980.

Country	---1965----	-----1980-----		
	Exports/GDP (Percent)	Exports/GDP (percent)	GDP (\$ billions)	Exports
United States	5.1%	10.2%	\$2599	\$265
France	13.7	22.3	645	144
Great Britain	19.5	28.2	500	141
Japan	10.5	14.0	795	111
W. Germany	27.1	27.1	602	163
OECD (Europe)	26.6	26.6	3611	960

Source: International Financial Statistics, International Monetary Fund (various issues).

Table 6.2. -- Exports as a share of the U.S. economy, 1955-85.

Year	Export/GDP (percent)	GDP \$ billions
1955	4.9%	396
1965	5.1	681
1975	8.5	1518
1980	10.2	2599
1985	6.8	4100

Source: International Financial Statistics, International Monetary Fund (various issues).

Since the share of exports and capital movements in the United States has been growing (on average), fluctuations in exchange rates are now playing a major contentious role in domestic politics. There is a close correlation of the value of the dollar and the state of the U.S. external balance in past years, and the dichotomy which has occurred in the recent years of extraordinary U.S. external imbalances (Cf. OECD Economic Outlook 33 (1983), p. 16 ff).

This change in conditions has led to a generalized confusion on the technical issues at stake:

The uneven experience of the 1970s has taught us to be skeptical of the ability of governments effectively to make and coordinate macroeconomic policies. One manifestation of this uncertainty is that macroeconomic policies no longer stand on firm ground -- in terms of either theoretical analysis or recent experiences. (Morse, 1979, p. 2.)

It is clear from the intervention of Federal Reserve Board chairman Paul Volker in the loan repayment crises of 1984-86 that micro-level effects on specific banking institutions may pose significant macrolevel monetary effects because of the highly leveraged nature of international finance. This intensifies the uncertainties facing decision makers in the international macroeconomy. The problem of "regulating" this economy requires a state: the question is what kind of (or which existing) state organization will do the regulating? Although there are conflicting tendencies, the likelihood of long-term international laissez-faire economic policy in the era of internationalized capital and exterminism is small.

Definition of "common interest" in an environment of competing sovereignties requires a hegemonic position not identifiable with one state. While the multinationalization of international linkages has begun to provide the structural basis for such a realignment, it is still futuristic. The organizational form of international cooperation is addressed in the next section of this chapter.

Parboni argues that the Keynesians "sought to exorcise the direct use of [national] measures by promoting multilateral, supranational organizations to regulate international trade and liquidity" (Parboni, 1983, p. 88). Both Keynesians and monetarists have been "internationalists" in policy terms, although they have very different views of the legitimacy of government intervention in macroeconomic regulation. Not surprisingly, however, apparently neutral macroeconomic growth policy has played a powerful role in stimulating U.S. investment abroad, even while that macropolicy may have had primarily domestic, political sources.

International Economic Organization

International economic organization is the institutional reflection of international economic integration. Economic summits are the conjunctural reflection of the international business cycle and trade conflict. However there are three basic types of long-term international economic organizations operating in the capitalist environment: "regulatory" organizations such as the IMF which surveil

if not control aspects of international economic intercourse; "collaborative" organizations such as the OECD which speak for groups of nation states on common international issues; and private organizations such as the Trilateral Commission which are international equivalents of national foundations and lobbies.

These international organizations represent nascent "materialized" relations of social production, but they also represent the existing constellation of nation-states and the reality that transnational capital still retains a strong "national" component. As such, these institutions represent a contradictory dual power. They ultimately are unsatisfactory as policy bodies and thus unstable in the long-run. Their incompleteness may be the most important weakness in the future course of capitalist development, a question addressed in the conclusion to this chapter.

The preponderant "regulatory" organization of the current world economic order is the International Monetary Fund which, along with the I.B.R.D. (World Bank) and the General Agreement on Tariffs and Trade, is a creature of U.S. political dominance of the western world following World War II. The IMF serves a number of state functions, and is able to generate and allocate funds and limit some aspects of the scope of international finance (especially for Third world countries). In this the IMF appears to be a nascent international state. However, like its colleague organizations, the IMF is a body of states and has been subject to dominant influence by the United States

in selection of leadership, staffing and finance. As such, it is more an extension of one state than a supranational organization, and even here it reflects just one sector of that state, as revealed by Henry Kaufman of Salomon Brothers in defending the IMF against conservative attempts in 1983 to diminish the IMF's lending authority:

The free-market view would have us wager the heart of the U.S. banking industry on a questionable point made by ideological extremists. (Leonard Silk, New York Times, 10/18/83.)

Reiterating the central political role of such economic interests, Leonard Silk cited Ronald Reagan's defense of the IMF against his ideological forebearers:

He said that if Congress did not approve expanded United States participation in the I.M.F., "the inevitable consequence would be a withdrawal of other industrialized countries [creating] a major disruption of the entire world trading and financial system -- an economic nightmare that could plague generations to come."
(Silk, 9/28/83, New York Times.)

Many suggest that the weakening dominance of the United States in world economic affairs will lead to increased power for the IMF. Some argue that the IMF should be vested with such powers (Camps, 1981). However, that will be a different IMF than currently exists.

The OECD is also a body of states, but without "regulatory" functions it appears to have greater autonomy from its individual states. Without "regulatory" function, however, the OECD is a rather pale international organization. Furthermore, examination of OECD

"communiqués" suggests that its policy is oriented more closely to the lowest common denominator on conjunctural issues. One analyst suggests the OECD is nothing more than a "talking shop" (Cf. MacBean, 1981, p. 135 ff), but as with the Committee for Economic Development in the United States, such discussion may have a long-term effect on policy matters.

Neither of the United States' most recent dramatic international economic actions, the New Economic Policy of 1971 nor the formal adoption of flexible exchange rates in 1976, is explicitly discussed in the contiguous issues of the OECD's periodicals, although economic developments around these policy changes are discussed. Much as with the efforts of the Committee for Economic Development in promoting Keynesian fiscal policy in the 1950s, it may be that the OECD's role is one for developing a long-term consensus on stable international monetary positions. This is a viable lobbying role toward national political bodies, but it is a very limited form of state.

Studies by the Trilateral Commission suggest that although the OECD's current "regulatory" role seems limited to communication and consultation, the OECD is being viewed as the genesis for more formal international institutional arrangements (Sklar, 1980; Camps, 1981). Furthermore, increased economic competition for reserve currency status may provide the structural basis for breaking U.S. hegemony in OECD and other international bodies (Epstein, 1985). Once economic dominance is broken, it appears that the level of international economic integration

already is sufficient to generate truly international state organizations in the economic arena, although such organizations would still lack the repressive capabilities normally required to assure obedience.

MacBean argues that the EEC countries have the potential to play a powerful role in international stabilization:

With the present difficulties facing the dollar and the failure to agree on a multilateral initiative, a steady broad-based economic recovery with the world's most important trading group would have a widespread beneficial effect through the avenues of multilateral trade.
(MacBean, 1981, p. 167.)

Such Atlanticist arguments are not unusual, but the history of Europe shows little more ability to coordinate policies than under the hegemonic influence of the United States. (Interestingly, hegemony is entering the international trade theory literature with the view that it requires a "hegemonic agent" to enforce the cooperative relations required for a liberal trade regime [Cf. Yarbrough, 1985]).

This is a central issue in international politics: is an organization of states, such as the EEC, actually a state or pre-state or not? To a certain extent this appears to be a qualitative issue: to what extent are the constituent states essentially forced by circumstance to forego part of their sovereignty? Sovereignty is the essence of statehood although economic effects cross borders much as modern culture does. As shown in the debt crisis of Mexico, national sovereignty (the

resolve of Mexicans to hold off the IMF and the U.S. banks in favor of domestic capital) remains a powerful force when the issues can not be resolved by economic ministers.

Finally, consideration must be taken of the non-governmental forms of international cooperation. Willetts points out that 1200 non-governmental organizations were represented at the U.N.'s charter conference in San Francisco, leading to Article 71 which recognized NGOs as important political actors in mobilization of policy constituents and in legitimation of policy alternatives distinct from the authoritative stance of formal government (Willetts, 1982, p.11). Although some such groups may view themselves as embryonic supra-national state bodies, their economic policy weight primarily is advisory.

Transnational corporations are also international political entities. However their ability to achieve "cosmopolitan" consensus depends on the relative weight of competition in their activities. Llewellyn notes:

International banking changed in the early 1980s as adjustments were made following the debt problems that emerged. It became a more cooperative, even collective, banking system compared with the aggressively competitive environment in the 1970s ... (Llewellyn, 1985, p. 231.)

The extent to which multinational business can cooperate rather than compete may contribute to the ability of nation-states and state agencies to overcome national prerogatives.

Cooperation in general, especially collective leadership, will be feasible for governments if and only if they perceive that through it they will be better able to deal with domestic problems or gain support from certain interest groups and minimize opposition from others. (Morse, 1979, p. 16.)

The pluralism of interests within structured state relationships completes the triad of international capital, international organizations, and international policy formation. The dynamic of international capital is toward such organization but it should be clear that the true transnationalization of capital is still insufficiently complete to provide a strong institutional basis for a supranational state. As Wallerstein points out:

Historical capitalism has operated within a world-economy but not within a world-state. Quite the contrary. As we have seen, structural pressures militated against any construction of a world-state. (Wallerstein, 1983, p. 65.)

This poses grave difficulties for internationally-oriented capital, and for "capital in general", since it reduces the ability of capital to avoid a direct political connection with the crises which are endemic of capital. It also poses the potential of increasingly politicized international conflict between capitalist states in the context of still robust post-capitalist political forces (in particular, the Soviet Union).

It seems to me that macroeconomic policy has real effects although there is some ambiguity about the precise implications on the business cycle of such policy. Evidence from the past forty years, some of it

summarized in the previous three chapters, shows that altering tax rates, government expenditures, or credit conditions affects the timing and perhaps the overall amplitude of business cycle income effects. It is less certain that macroeconomic policy reduces fluctuations in the underlying dynamic of industrial production (Cf. DeLong, 1984; Romer, 1986). In particular, macroeconomic policy is unlikely to offset long-term growth prospects, whether acting from exogenous changes in the productivity environment or as endogenous long waves. But the short-term amelioration of business cycle effects has had positive political and social effects, especially through the reduction in generalized income instability. This effect has been amplified in the United States by the movement away from a manufacturing economic base toward a service oriented economy in which the accelerator income effects of investment timing have less employment impacts. Presumably the instability has been "exported" to the new manufacturing centers.

International transmission of business cycle impacts and macroeconomic policy instruments severely reduces the efficacy of a nation-based macroeconomic policy. However, for the United States, which still maintains a hegemonic position vis-a-vis world capital, a macroeconomic policy oriented towards the needs of multinational capital will still have positive political impacts. This can be seen during the Reagan era in which macroeconomic policy occurred by default, in a period of strong support for the freedom of capital movement nationally and internationally.

CHAPTER 7

DESPERATELY SEEKING RONALD REAGAN: Ideological Components of Macroeconomic Policy Formation

Introduction

This chapter is concerned with the relationship between consent and subjugation in macroeconomic policy. The power inscribed in Reagan's electoral mandate in 1980 propelled forward the importance of explicitly ideological elements in public policy, and the genius of Reaganomics was the hegemonization (if temporary) of the ideological basis for determining economic policy. It took considerable resources in private foundations to prepare the intellectual ground for this revolution, and to change social relations from the historic compromise which marked previous liberal socio-economic model has been at considerable economic and social cost. Despite this effort, the inability of Reaganomics to "solve" the macroeconomic problems of the United States, to stabilize long-term financial conditions, while at the same time creating the prospect of a mortgaged future (budget and trade deficits and reduced savings rates), suggests that ideology alone is not sufficient to create a durable shift in the macroeconomic policy regime.

The domestic and international ramifications of the U.S. war in Vietnam and the personal idiosyncrasies of Richard Nixon placed the United States in a profound ideological crisis in the mid-1970s. However, the basic viability of the U.S. social system was not threatened by these political events. On the other hand, the recession of 1974/75 and increased international economic competition amongst the advanced industrial countries presented U.S. capital with some profound problems in restructuring economic relations. Combined, the economic and ideological crises might have posed a significant challenge to the social order in the United States. As it turned out, these crises had no such effect. That they did not speaks not only to the weakness of systemic opposition in the United States but also to the strong ideological defenses of the economic system.

This chapter begins with a brief empirical description of the major macroeconomic trends in the Reagan period. There follows a three part exploration of the Reagan revolution, including the movement toward deregulation under Ford and Carter, the rise and fall of industrial policy, and the rise of supply-side economics. This is tied to an examination of the ideological structures of macroeconomic policy formation as exhibited in the restructuring of advanced industrial capital within the interstices of working class (dis)organization and international competition. The chapter concludes with a general discussion of ideology as a social practice.

Early responses to the mid-1970s economic crisis involved such straightforward political tactics as union bashing and xenophobia. These have continued, but they have not presented any fundamental solutions to U.S. capital. The British argument against the capital costs of social democracy and the welfare state was not exactly importable to the United States, although here attempts to reduce the "social wage" increased. The major discussion amongst the U.S. leadership cadre appeared in the late 1970s to be over the possibilities of an industrial policy similar to that presumed to exist in Japan. However it soon became clear that the ideological ramifications of such a policy, both within the business sector and in terms of state responsibility for corporate failure, might be socially inadvisable. Industrial policy was stillborn. There remained two trajectories: muddling through with the Democratic Party's liberal Keynesianism or shifting power to the laissez faire rhetoric and less liberal policy of the Republicans. As can be seen clearly after six years of the Reagan presidency, the pragmatic economic differences between the two roads were probably very limited. There is little doubt that the ruling elite in the United States has found Reagan's macroeconomic management acceptable, if not edifying, and has found the impassioned defense of capital and market remarkable.

Reagan's Presidency represents in economic policy an ensemble of material practices (primarily tax rate restructuring and monetarism) and modes of discourse (getting America moving again, etc.) which has been able to disarm social discord and to marginalize liberal defense

of social welfare. Although the Federal budget deficits are extraordinary, it is not clear that an alternative course was available to U.S. political leadership. Indeed, the "Keynesian" aspects of such tax cut induced deficits has been acknowledged by supply-siders such as Robert Mundell (Cf. Brooks, 1982, p. 136). There is a tremendous consistency in actually implemented economic policy from Ford to Carter to Reagan, and in articulated policy by contenders such as Mondale and Hart. Only Hubert Humphrey and Jerry Brown posed truly alternative perspectives from a national viewpoint, and neither proved to have substantial support from the captains of industry and finance. Thus the experience of the past ten years supports the idea that a hegemonic economic policy position develops which is able to coalesce with political leadership to shape a common outlook on macroeconomic policy. That policy may prove to have been incorrect, but it has been both economically pragmatic and ideologically powerful. The latter may prove to be Reagan's strongest legacy.

The ideological direction of the international economics of the capitalist state coincides primarily with the internationalization of production despite domestic contradictions which give rise to protectionism and despite international complications for "free world" alliances (e.g. the dispute with Mexico over its internal structure and debt). This ideological orientation is not a conjunctural anomaly but can be clearly seen as the over-riding tendency of capital's international development and the uneven development of domestic economies.

The national economics of the Reagan era make the same point "crystal clear": the logic of capital and the policy required for its restructuring have dramatic redistributive effects for minorities, women, farmers and others tied to the economic system with bonds still tinged with chauvinism. Most of these bonds arose through "simple" discrimination, a history of prejudice. Others are features of technological change, such as the fate of the family farm in the face of concentrated capital. For each, macroeconomic policy has a redistributive effect shielded by an ideological component. The genius of the Reagan era has been the denial of class consciousness despite 15 years of economic crisis. Thus Reaganomics is part economic strategy, part ideological shadow box. This chapter explores both aspects.

The Economic Trajectory of the Reagan Period

It may seem ironic to begin a discussion of the highly ideological Reagan era with an empirical mapping. Yet a materialist analysis is based on concrete practices, of which economic conditions (the "dull compulsion of economic relations") are an essential element.

Reagan built his macroeconomic policy legacy on the failure of the Carter administration to serve more than a caretaker function to national economic leadership. Real GNP (Gross National Product) was falling at an annual rate of 3 - 4% at the time of the 1980 election while unemployment was over 7% and prices were rising at 12 - 14%

(Figures 7.1 - 7.3). Each represented a true complement to the question, "Ask yourself, are you better off today under Jimmy Carter than you were four years ago?" Carter was not able to shake off the political coat tails of the 1974/75 generalized world recession.

The macroeconomic indicators at the end of the Carter presidency were true indications of severe economic and social dislocation in the United States even while a spirited discussion raged on the problems of myopic voters, on the actual distributive and real income effects of inflation, and on the benefits of a zero sum society. Carter's Economic Report of the President (1977-81) exhibited a propensity to blame "exogenous" events, such as the OPEC oil price recovery, for poor economic performance with little evaluation of the systemic and conjunctural events which deepened the crisis begun in 1969 and intensified in 1974/75. Discussion was broached on the prospects of an industrial policy.

After six years, Reagan was able to credit his economic policies with positive growth rates and with disinflation. Unemployment remained at the Carter level, although there has been a strong interest in redefining the baseline of "frictional" unemployment upward to 6% (justified through the increased necessity for job shifting in the U.S. economy and because more workers are utilizing unemployment benefits to search for more permanent jobs), thus reducing the perceived rate of actual unemployment. Furthermore, as Reagan supporters are quick to

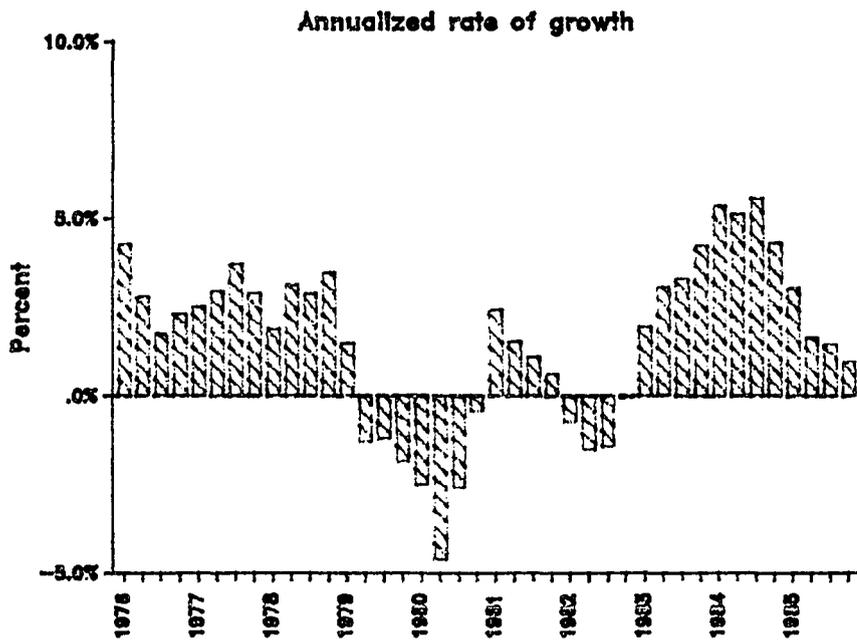
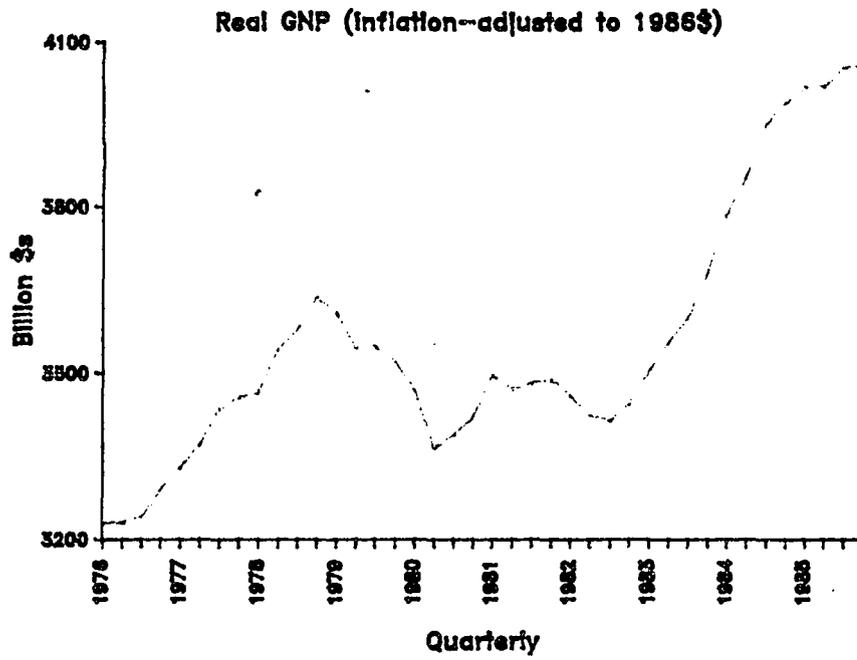


Figure 7.1. Reagan era growth, 1976-85.



Figure 7.2. Reagan era unemployment, 1976-85.

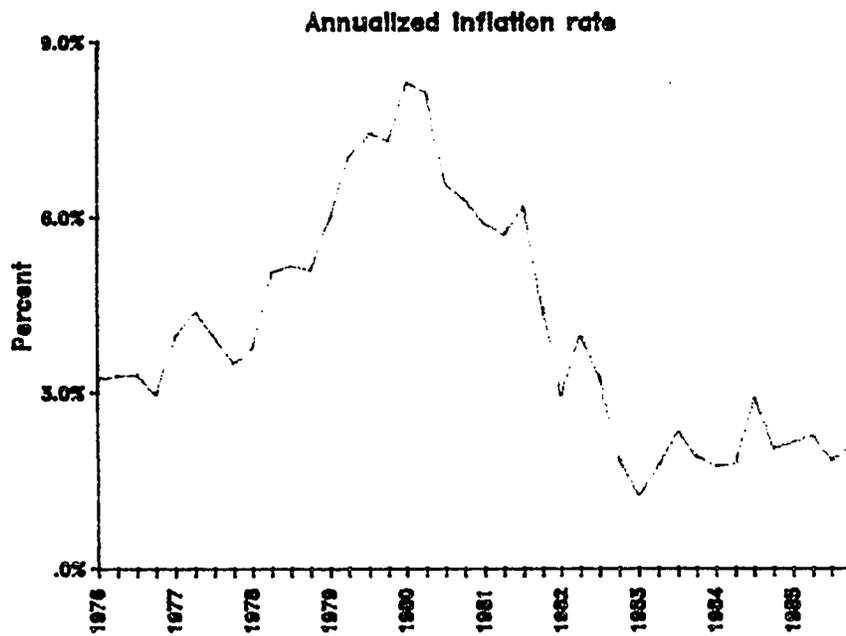


Figure 7.3. Reagan era inflation, 1976-85.

point out, job creation in the United States has exceeded the rate in most European countries and Japan.

Yet the human record of the Reagan era is also one of a "safety net" through which millions have slipped. This has been documented thoroughly (Cf. Palmer, 1984) and reveals the structural effect of economic changes on specific segments of the population. The national constituency which might have been generated by the growth of poverty and debt has been fragmented at best. Breadlines were seldom politicized. The black movement mobilized around Jesse Jackson with ambiguous results. The women's movement was pushed into retreat by the anti-liberation wing of the Reagan constituency. Towns and states competed with one another for the favors of manufacturing plants, while unions traded off give-backs for weak promises of job security for their members. The Simpson-Mazzoli Act was the contribution of the Reagan administration to Hispanic Americans. Each of these political developments emphasized the disorienting effects of the internationalization of production on the "average guy."

Could this average guy, watching his income shrink, we wondered, be the same average guy who, in the nearly unanimous consensus of pollsters, editorialist, and other journalistic observers, was now "feeling good about America"? ... Could they make him believe it was morning in America even when it was twilight in his paycheck? ... Somehow, it appears, there has been a tremendous slippage between the world of numbers inhabited by experts and the world of images that, since the rise of television, the rest of us Americans have come to live in. At some point, one of these worlds is going to have to give way to the other -- and chances are it's the image world that will have to be corrected.
(New Yorker, 8/4/86.)

There are a number of ironies in the Reagan economic record, but the ballooning of the Federal deficit is perhaps the greatest. The Carter Presidency coincided with an overall decline in the ratio of Federal expenditures to GNP while the Reagan presidency has seen a rise to post-World War II highs (Figure 7.4). The ratio is correlated with both the rate of change of GNP and unemployment, because of the cyclical adjustment in both government expenditures and receipts (thus reflecting the severe recession of 1982), and the rate of government spending. Both contributed strongly to the rise in the ratio under Reagan.

U.S. Department of Commerce analysis of cyclically-adjusted GNP shows that the "deflationary gap" [the deviation due to unemployment between actual and "potential" GNP] was 5.1% in 1982 and 3.8% in 1983, compared to a surplus [actual production above the long-term trend] of 2.6% in 1978 and 1979. The Reagan period deflationary gap exceeded even that during the 1974/75 recession when it was 4.3% and 2.2% for each year, respectively (Holloway, 1986, p.13). In other words, the fiscal austerity promised by the Reagan rhetoric was replaced by a pragmatic (if conscious) or de facto (if accidental) fiscal policy of income stimulation.

A major presumption of the supply-side revolution of Reagan's 1980 campaign was that reductions in effective tax rates would stimulate investment and economic growth. The major legislation of Reagan's first term proposed to reduce tax rates but to increase taxes collected by

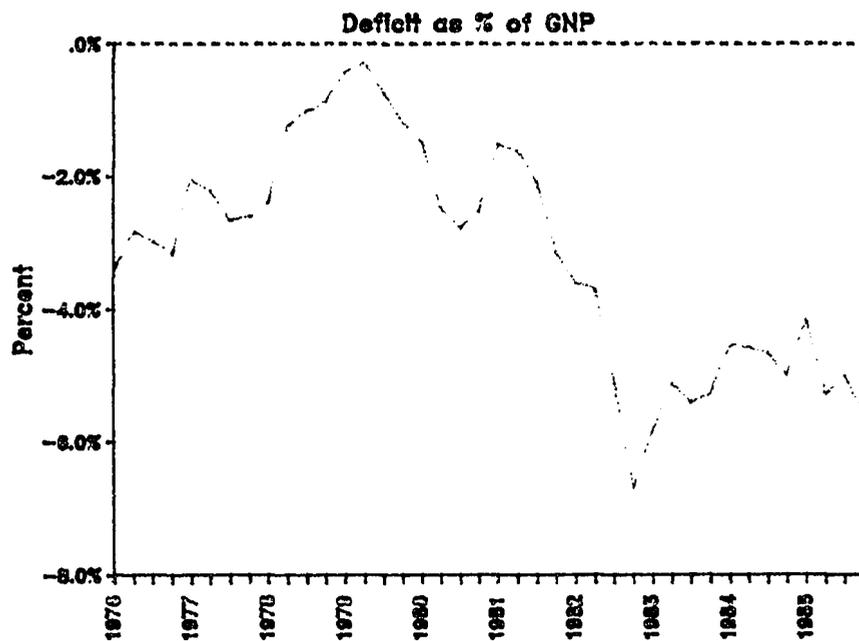
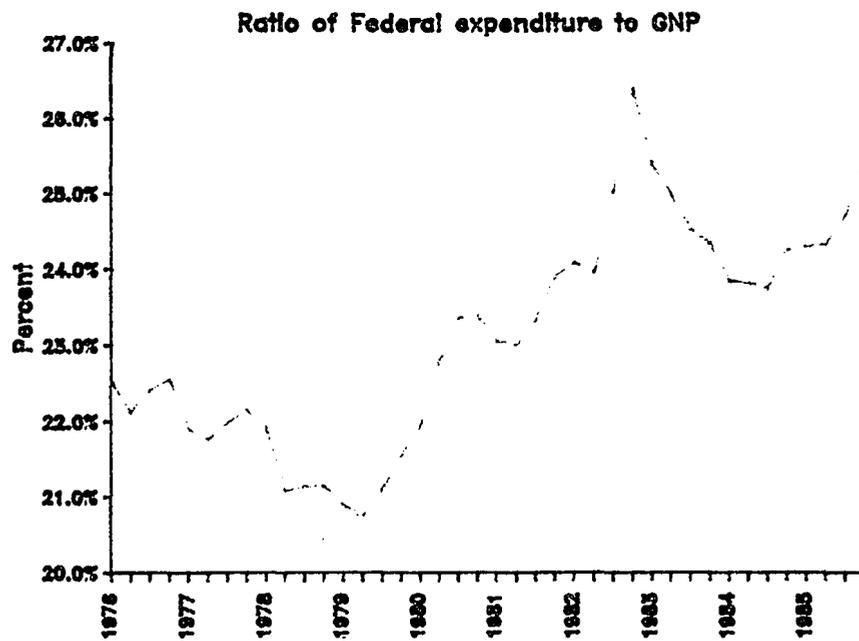


Figure 7.4. Reagan era government activity, 1976-85.

\$150 billion over the period Fiscal Years 1981 to 1987, and to reduce government outlays by \$180 billion (Wakefield, 1986). The combined effect of these policies would be to reduce the Federal debt by \$330 billion over the period. Instead, the annual Federal budget deficit rose from \$78.9 billion in Fiscal Year 1981 to \$212.3 billion in Fiscal Year 1985. However, as Eisner (1986) points out, the effect of these deficits would be to refloat the depressed early 1980s U.S. macro-economy.

Similar studies of the Federal budget and deficit over the past three years suggest that over the long-term (1970-86) most of the increase in deficits could be accounted for by policy changes, i.e. in deliberate policies to increase expenditures and reduce receipts (Wakefield, 1985). However, for the 1983 fiscal year, where the actual deficit (\$195.4 billion) was more than twice the projected deficit (\$91.5 billion), two-thirds of the increased deficit could be attributed to the increased unemployment and reduced growth rates over the period, one-quarter to re-estimation procedures, and one-twelfth to policy changes (Wakefield, 1984). Even here, the policy changes represented increased supplemental income transfers reflecting unemployment conditions.

In particular, the budget deficit did not respond to the fiscal package as anticipated by the White House economists. For example, the Fiscal Year 1983 budget was based on assumptions of real growth in GNP of 5.2%, with inflation reduced to 6%, and unemployment to 7.9%.

Success in reducing inflation (which was dependent on the restrictive monetary policy of the Federal Reserve) increased the deficit by eliminating some of the automatic gains in receipts which could have been expected with rising prices. (Cf. Holloway, 1984, who points out that every 1% increase in prices would reduce the deficit by \$7-9 billion.)

These economic problems and apparent chaos in macroeconomic management eventually had their effect. The victories of Democrats in the 1986 elections were frequently identified with popular distrust of Reagan on economic affairs (Cf. Leonard Silk, New York Times, 11/7/86).

The Reagan Revolution

The increasingly conservative impetus in macroeconomic policy begun in 1969 was a program which could be fully implemented only with the election of Ronald Reagan in 1980. The first round in the deterioration of Keynesian hegemony came with Lyndon Johnson's conflict with the Federal Reserve in 1967-68. The second round came with the abandonment of Richard Nixon's New Economic Policy to hyperinflation. The third round began with the reign of Paul Volker at the Federal Reserve in 1979 and culminated in the re-election of Reagan in 1984. Each round might be represented as a conjunctural attempt by the dominant political leadership to restructure the relationship between labor and capital in the United States. While not entirely successful on purely technical, economic grounds, the cumulative effect has had a

powerful political impact in widening the latitude for action by U.S. capital. This section briefly discusses the deregulation movement as symbolic of a resurgent capitalist ideology. Then industrial policy is examined as an example of an ideologically rejected form of political intervention. A more extensive review of the politics and economics of the supply-side economic revolution concludes this section.

Deregulation was not a discovery of the Reagan administration -- its implementation represents a continuous thread in Presidential policy over three administrations. Gerald Ford signed Executive Order 11821 in 1976 requiring a regulatory impact analysis (i.e. a cost-benefit measure) of almost all new and amended Federal rules and regulations. Jimmy Carter's chief economist, Alfred Kahn, prided himself on the deregulation of transportation. Both Carter and Reagan ran against "big government" and the regulatory burden which had developed since the Progressive Era, especially during the Kennedy-Johnson-Nixon expansion of the Federal government bureaucracy. The "captive agency" argument against the practices of regulatory bodies failed to recognize the real corporate costs of regulation (both in direct response and in expansion into new markets) despite the advantages to regulated industries of protected market shares. Thus, in a period of falling profitability and cost-consciousness it was relatively easy to decouple economic regulation, although it has proven much more difficult to dismantle environmental regulation.

Deregulation serves to extoll the virtues of the market as an

efficient allocator of resources and as a respondent to public demand. The costs of the market to the public, especially in a short-term accounting framework during a period of high interest rates, is extremely difficult to quantify. The costs of regulation to the corporate sector had become very apparent. Thus the material conditions of the U.S. economy, the prosaic relations of production, linked with the systemic needs of capital flexibility to create a synthesis toward political implementation of deregulation. James M. Buchanan's 1986 Nobel prize in economics may be seen to be a reflection of the success of the conservative's "laissez faire recovery project", in that political analysis of democratic institutions is now legitimized in terms of microeconomic theory.

The impact of deregulation was to increase the degree of economic concentration in network industries, i.e. transportation and communications (Cf. Welles, 1986). In some cases, for example the airlines, deregulation led to a shake out of old industry firms (e.g. Pan Am). In other cases, for example in agriculture, banking capital (e.g. BankAmerica) came to control production, but at a corporate cost. In still other cases, such as communications, the previous monopolist (ATT) maintained its market share. The success of deregulation in reorganizing and consolidating capital and as an ideological practice can be contrasted with the failure of industrial policy.

The epigenesis of industrial policy in the United States was the perception that there was something peculiarly flawed in the investment pattern of large-scale capital. Although the diagnoses differed -- from a failed entrepreneurial spirit to a distorting tax code -- the conclusion was that government intervention in the parameters which affect investment will be prescriptive. Chief proponent Robert Reich put it thus:

Industrial policy is closer to the strategic planning models used by many companies than to traditional macro- or microeconomics. Its major concern lies with structural changes in world markets and the strategic positioning of an economy's key industrial sectors... (Reich, 1982, p. 75.)

Industrial policy was promoted in response to the weak recovery made in the United States from the 1974/75 generalized recession and to the apparent decline in U.S. competitiveness internationally. Its material backers included the corporatist wing of the Democratic Party, with major support from the labor unions and the cities which saw in industrial policy a means of offsetting the mobility of capital (Cf. Davis, 1986).

The pressure from the international economy had a distinct material impact on U.S. industry, as well as on the rhetorical level of protectionism.

Competition from less developed capitalist economies, both within the US and worldwide, has rocked the foundation of mature economies, forcing them to retreat to the more competitive, probusiness policies of the past. (Norton, 1986, p. 33.)

The economic analysis of the U.S. economy which supported industrial policy was not particularly robust, as pointed out by Norton, but the chief element identified by Reich was the failure of U.S. business to adjust to the negative implications for mass production of the growth of world production (Reich, 1983, p. 44). The new operating environment of transnational production required a shift to skill-intensive production ("flexible system production"), a shift requiring a new partnership of government, business, and labor. This shift has been thwarted by the "paper entrepreneurship" which affects corporate managers in the United States (Reich, 1983, p. 58).

Proponents argued that a de facto industrial policy already existed with the government's current role in the economy, and that gains could be made by linking an explicit plan for publicly facilitated investment with deregulation (Cf. Leone and Bradley, 1981).

However a particular problem was how to decide into which channel to direct industrial investment. The issue, as Reich saw it, was how to coordinate government policies, both in terms of public goods (infrastructure) and the policies which affect the decisions of specific industries, such as regulations.

Given the realities of military procurement and R&D, industrial politics, labor adjustment, public goods like infrastructure and education, and the actions of foreign governments, ideological concerns about the proper role of governments and markets are simply beside the point. A coherent industrial policy is a practical necessity. (Reich, 1982, p. 79.)

Many thought neither the concept nor the implementation of industrial policy was appropriate to the United States. In a major review of the economic justifications for industrial policy, Norton found that even without such a policy, "the United States' adaptation to the new world economy has been more effective than Europe's" and that "U.S. regional diversity has enforced a painful but therapeutic adjustment" (Norton, 1986, p. 3). While there is a strong element of "insurgent capitalism" in Norton's analysis, he identifies the product-life cycle and industry-life cycle as important features leading to apparent declines in manufacturing success. These hypotheses hold that there is a natural progression of development and aging in products and industries which means that in a growing economy their relative contribution to aggregate income generation will decline over time. Furthermore, Norton cites U.S. GNP sectoral data showing an increase in manufacturing share over the period 1959-79. Although the northeast manufacturing belt showed an absolute decline during the period, the growth of southern and western manufacturing (and thus the replacement of non-unionized for unionized plants) more than offset this decline. In other words, the material basis for industrial policy in the United States may have not had the national component which was generally understood to be the basis for such initiatives elsewhere.

Ideological detractors to industrial policy argued that it was a thinly veiled attempt to institute national economic planning despite its proponents attempt to link industrial policy to the needs of

industry. Bennett Harrison observed that Reich's industrial policy amounted to "a strange combination of liberal interventionism and conservative emphasis on corporate profitability" (quoted by Leslie Wayne, New York Times, 9/26/82).

Business analysts argued that linking investment decisions to government was too difficult a step.

The most serious obstacle to implementing an industrial policy in the United States is interest-group and partisan politics ... Moreover, the history of trade policy demonstrates that poor competitors are among the most active and political players, while profitable companies, such as IBM, often remain on the sidelines. (Badaracco, 1983, p. 98.)

Opposition to these inefficiencies of democracy (Cf. Trilateral Commission, 1979) is a component of policy trajectories toward deregulation, industrial policy, and monetarism. The trajectories are neatly summarized in prescriptions for international economic policy coordination.

Recognizing the advantages of our decentralized system, improving decision making, and focusing national debate on macroeconomic international issues rather than microeconomic domestic ones ... would be a genuine accomplishment for the United States to lead the world toward a more cooperative international economy and create a stable macroeconomic environment for business decision making. (Badaracco, 1983, p. 105.)

While Reich argued that the supply-side medicine of the Reagan administration was severely flawed, the opponents of industrial policy were able to join with the ideological components of Reaganomics and still be able to reject many of its specific policy prescriptions.

The industrial policy debate raises questions concerning the basic nature of capitalism, whether "monopoly capital" can control the development of capitalist economies or whether uneven development will shift the locus of the generation of surplus value. The answer seems to favor the latter, although the corporations of the former may be sufficiently flexible to participate in these realignments of capital formation. The shifts in government policy vis-a-vis the tenor of macroeconomic development can be expected to reflect the relative weight of this contest between capitals, and between the political centers (e.g. the regions and the unions) related to these capitals.

Reaganomics was heralded with the supply-side manifesto of Jack Kemp (including "Avoiding a Republican Economic Dunkirk") and the supply-side cocktail napkin of Arthur Laffer. Its implementation was marked by the 1981 tax cut plan and the fiscal year 1982 budget. The program was not a consolidated macroeconomic policy, except for the potential growth effects of tax rate reductions. However it did represent a philosophical approach to reduced fiscal impact and increased monetary impact, with the latter to be replaced (by some) with the discipline of gold. The budget priorities program effectively substituted for macroeconomic policy, although the budget program frequently was justified on macroeconomic grounds.

The budget program included the following:

Achieving the President's budget savings targets will require an end to the proliferation of new Federal programs and a reversal of the trend toward greater Federal roles in economic and social programs. The President's program stresses two overriding priorities:

-] Sufficient budget resources must be provided to rebuild the nation's defense capacities;
-] The social safety net of income security measures erected in the 1930s to protect the elderly (including cost of living protection for the elderly), unemployed and poor, as well as veterans, must be maintained.

Beyond these two priorities, all other Federal programs are being subjected to thorough scrutiny and widespread reduction. (White House "fact sheet" reprinted in the New York Times, 2/19/81.)

Not only business but also the government was to be "deregulated", in the sense that public accountability of government operations was to be reduced. The budget priorities were to be achieved through executive action within the parameters of the budget bills (spending levels) approved by the Congress. However, the implementation of these priorities was much more difficult than the Reagan administration had anticipated.

The domestic side of the budget marked the introduction of David Stockman into the political limelight and exposed the laissez faire impact of the Reagan proposals on social programs.

The Reagan Revolution is moving fast to sweep out the old order, and David A. Stockman, the zealous young director of the Office of Management and Budget, is its Robespierre.

Yesterday he sharpened up his guillotine and marked more than 300 social assistance programs ... for cuts totaling \$48.6 billion in the 1982 fiscal year.
(Leonard Silk, New York Times, 1/14/81.)

The domestic program cutbacks, argued primarily on the basis of budget balance, were matched by increases in military spending.

In perhaps the largest shift of financial resources proposed in the nation's peacetime history, President Reagan disclosed tonight that he planned to increase the military budget from 24.1 percent of Federal spending to 32.4 percent over the next three years. (New York Times, 2/19/81.)

These budget priorities remained essentially unchanged throughout the Reagan presidency, but the ability of the executive branch to force dramatic cutbacks in social spending was not consonant with its ability to encourage increases in military expenditures. Combined with the tax rate reductions borne of the failed logic of the Laffer curve, the effect was a massive budgetary imbalance. Davis' (1985) thesis of a nouveaux riche constituency was fulfilled.

Although the budget reallocations were the focus of the greatest rhetorical heat from liberal opponents (the "new fiscal conservative Democrats" had not yet congealed), the tax cuts were the basis of supply-side economics. Conceptually, the idea was simple: hard-working people lose their incentive to work hard if too much of their income is taxed; reducing these taxes provides a powerful incentive to greater productivity.

Regressive taxes [where lower incomes levels are taxed at effectively higher rates] help the poor! It has become increasingly obvious that a less progressive tax structure is necessary to reduce the tax burden on the lower and middle classes. When rates are lowered in the top brackets, the rich consume less and invest more. Their earnings rise and they pay more taxes in absolute amounts. (George Gilder's Wealth and Poverty quoted by Ann Crittenden, New York Times, 4/26/81.)

There was little professional economic evidence on the subject. Norman Ture cites his Treasury and National Bureau of Economic Research experience as convincing him of the relevance of a renewed neo-classical (i.e. relative price effects) approach to macroeconomic policy (Brooks, 1982, p. 115 ff). However review articles directed at the issue and a number of panels at American Economic Association annual meetings have reported ambiguous evidence on the empirical basis for supply side economics (Cf. Barth, 1986 and American Economic Association, 1986). The analytical problems include the multifaceted determination of savings and investment rates, the alternative sources of savings and investment (especially between government and private sources, and between alternative types of capital investment), and the time duration of policy effects. The latter may be a particularly pungent political problem:

Supply siders claim particular knowledge or appreciation of the size and significance of the latter [substitution effects between types of savings, consumption, and investment], without, however, heeding the time that must be allowed for such effects to add up. (Furstenberg, 1986, p. 39.)

As a matter of fact, Laffer was noted for believing in a simultaneity of macroeconomic effects (Brooks, 1982, p. 145).

In The Triumph of Politics, Stockman reveals the problems within the Reagan administration in developing an informed and consistent macroeconomic policy, indeed, the problems of even comprehending the inter-relationship of the budget and the tax bill, and the Federal budget deficit and overall economic activity (Cf. Stockman, 1986, p. 372 ff). He also gives evidence, although indirectly, that macroeconomic analysis would need to find its own "refuge center" (Stockman, 1986, p. 102). That center would turn out to be the Department of Commerce's Bureau of Economic Affairs (New York Times, 5/3/82.) Stockman concludes that the basic structure of the Reagan economic plan was flawed.

In the larger scheme of democratic fact and economic reality there lies a harsher judgment. In fact, it was the basic assumptions and fiscal architecture of the Reagan Revolution itself which first introduced the folly that now envelops our economic governance. (Stockman, 1986, p. 429.)

Like a born again Democrat, Stockman reveals each of these assumptions in full detail. These reflections on the policy process are both fascinating and illuminating, but they are most important in indicating that there was no "trajectory" to the macroeconomic side of Reagan's fiscal program. This effectively ceded control to the Federal Reserve, a fact grasped with great comfort by Wall Street.

By 1983 the potential effects of the supply side tax cuts were already being discounted by the Reagan administration:

Unfortunately, the combined effects of the recent economic recession and large Federal budget deficits will hold down the rate of capital formation, as currently forecasted, over the next several years. (Economic Report of the President, 1983 quoted in Leonard Silk, New York Times, 2/4/83.)

Martin Feldstein, a "traditional" supply-sider, argues that there was a modest supply side effect during the post-1982 recovery but that monetary policy was the primary determinant of the recovery (Feldstein, 1986, p. 29). The adherents of the "new" supply-side economics disagree entirely, placing the weak response of the economy to the tax cuts on the political compromises in the timing of tax policy and restrictive monetary policy. Arthur Laffer argued in mid-1982 that delays in tax reductions were delaying the response of rational individuals who preferred to realize their gains under a more liberalized tax code (Arthur B. Laffer, "Reagan's tax program," New York Times, 7/2/82). A representative of the Treasury strongly criticized both the Federal Reserve and Feldstein at a panel during the 1985 meetings of the American Economic Association for failing to support the supply-side program.

However the long-term argument of the supply-side position is ideological, not short-term economic recovery.

The problem of contemporary capitalism lies not chiefly in a deterioration of physical capital, but in a persistent subversion of the psychological means of production -- the morale and inspiration of economic man -- undermining the very

conscience of capitalism: the awareness that one must give in order to get, supply in order to demand. (George Gilder cited by Ann Crittenden, New York Times, 4/26/81.)

These ideas are repeated in almost all the discussions of the political background to Reaganomics. The historic 1981 interviews of David Stockman by William Grieder (1981) in Atlantic Monthly were continued five years later with the publication of The Triumph of Politics (Stockman, 1986). Both confirm the peculiar idealism and greed of Reaganomics. Perhaps Stockman's biggest revelation was the idea that "supply-side economics" was "a Trojan horse horse to bring down the top rate [of personal income taxes] on the part of Kemp-Roth" (Grieder, 1981, p. 46.)

Yet there has been tremendous public tolerance for the Reagan economic policy. James Kuhn argues that the perception of a need for a basic structural realignment to the U.S. economy contributes to this tolerance (Cf. Leonard Silk, New York Times, 2/9/83). This may be the major success of Reagan's economic policy, although the purely ideological component cannot be minimized. Indeed, Leonard Silk quotes William Fellner, member of the Council of Economic Advisors under Nixon and Ford as holding that:

The spread of monetarism represents a counterstroke to what the late Prof. Joseph Schumpeter of Harvard saw as a "march into Socialism" by the Western democracies. (Silk, New York Times, 2/9/83.)

The ideological offensive of the new conservatives in the United States is clearly in line with that of their counterparts in Britain (Leys, 1985). For example, Stockman told Grieder, "We believe our ideas have intellectual respectability, and we think the press will recognize that" (Grieder, 1981, p. 32). These sentiments are echoed throughout discussions with supply side proponents.

The final act of the supply side revolution, at least under Reagan, was the passage of the Gramm-Rudman-Hollings budget balancing act of 1985. This represented not only the confluence of pragmatic concerns over the size of the Federal deficits but also an ideological victory in the movement toward Constitutionally balanced budgets. However, in both regards, Gramm-Rudman-Hollings failed and it now appears left to the crucible of the next Presidential campaign to further develop or find an alternative to the supply side revolution. For the "average guy," neither deregulation, industrial policy, nor supply-side economics seems to have made any contribution to her or his standard of living, and no one was posing these issues to the average person in a politically conscious way. The retreat from public macroeconomic policy appears to represent an ideological victory for the "refuge" state.

Ideological Structures of Macroeconomic Policy Formation

The objects of the political criticism against Reagan's economic program have been wide and varied: the monetary and international effects of the Federal budget deficit, the redistributive impact of the

domestic budget and income tax reductions, the employment effect of the monetary contraction, the abandonment of the industrial heartland, etc. Yet the conservative ideology of Reagan's social program was so remarkable and so much of the economic program itself was an extension of the Carter presidency (especially the logic of deregulation) that the systemic aspects of these economic policies have not been well told. In Britain, where explicit class politics are the norm, there has been an informed debate on the significance of Thatcherism which is a useful example for an analysis of Reaganism.

Stuart Hall promoted the concept of "Authoritarian Populism" in explaining the political dominance of Margaret Thatcher. In a framework prepared by Gramsci, Hall argued that Thatcher's program represented an "unstable equilibrium of compromise between coercion and dissent" which was moving toward coercion (Hall, 1985, p. 116). Thatcher's strategy was "anti-statist", i.e. it was represented as against big government just as it centralized state operations. Thus Thatcher combined some strategic elements of popular opinion into a hegemonic project to restructure class relations in Britain. Her appeal, like Reagan's, was not based on her proposals for the state, but was based on an appeal to civil society. "'Moral panics' ... serve to win for the authoritarian closure the gloss of populist consent" (Hall, 1985, p. 116).

However conjunctural moral crusades are only an aspect of Thatcherism. She has also promoted the formation of a new stratum of intellectual leadership much as the new Right has done in the United

States with organizations such as the Cato Society. Authoritarian populism in Britain represents a clear ideological strategy, a strategy rather more complete than those attempted during the Keynesian period.

Big capital ... has supported Thatcherism because it sees in it the only political force capable of altering the relations of force in a manner favourable to the imposition of capitalist solutions. (Hall, 1985, p. 120.)

This may not be sufficient. Most critics of Thatcher argue that the government has not been able to overcome the structural decline of industrial corporate life in Britain and that the support of Thatcher by capital is contingent. The Thatcher campaign slogan "There Is No Alternative" probably reflected accurately the conditions in the late 1970s, although those conditions have now changed. Colin Leys argues that Great Britain is faced with an absolute decline as a fully capitalist social formation caused by the complete internationalization of the conditions of production in a situation where the industrial aspects of the capitalist state were too weak. Leys points out that the key elements of Thatcherism and Reaganism were actually attempted by Prime Minister Edward Heath in 1970-72, although they were beaten back by the strength of industrial labor at the time. The Heath government could be considered the harbinger of a direct assault on the perquisites of labor. In this situation, "market doctrine ... is above all an ideology and strategy for destroying a previously established regime of accumulation" (Leys, 1985, p. 25). The effectiveness of the Reagan administration in transforming macroeconomic policy debate represents just such a destruction.

These ideological offensives were strongly correlated with the political economic structure of British capital. Leys argues that four factors led to the inability of industry to properly represent its interests in the interstices of the British state. First, in the "mode of representative of capital," domestic industry was poorly represented even in its own body, the Conference of British Industries (CBI) which was faced with a conflict with its non-manufacturing members and between its private and nationalized firms. Second, the fractions of capital within manufacturing were such that much of big capital had sufficient external assets to avoid the hammer of the marketplace. Third, the political crisis of capital in 1974-76 in which a social contract between trade unions and the Labour government was fashioned led to a loss of corporate control over capital through proposals for labor representation on directorships. Finally, the absence of a hegemonic business ideology, a failure rooted in the history of the British state, meant that Britain lacked the normative and coercive mechanisms required by industrial regulation. Thatcherism and Reaganism, as laissez faire policy within a constitutionally and organizationally strong state, stepped into the vacuum by devolving responsibility to the general citizen while dramatically freeing multinational capital (Leys, 1985).

The ideological basis of Reaganism can be discovered in the same framework. Mike Davis (1985) argues that while there was a relative decline for the United States in a macroeconomic sense, the effects of

this decline are muted because of U.S. dominance over the general conditions for the reproduction of world capitalism. Reaganism is seen as a rise of the nouveaux riche in a new regime of overconsumptionism. As a result, the industrial basis for development, the deepening of the capital basis which occurred through mass production and mass consumption (Fordism) which followed World War II, has been undermined.

Bowles argues that the revival of Keynesianism under Reagan was a pragmatic response to the recession of 1983 and a recognition that demand also mattered. However Bowles stresses that the social structures of accumulation, i.e. class relations, are the central in economic performance. Thus, in observing the disintegration of monetarism, he notes:

But the supply-siders are dead right that there is something very wrong with our system of production itself. Mounting evidence suggests that a deterioration of labor-management relations and a decline in long-range management thinking and innovation have played a key role in our decade and a half long slide toward economic mediocrity. (Samuel Bowles, New York Times, 7/8/84.)

Bowles observes that the Democratic challenge to Reagan was wrong on both counts: a rejection of supply-side emphasis on the structure of production and a rejection of demand management. The failure of the Democratic Party response to the economic structure changes in the 1980s has led to a continued economic policy hegemony for the neo-conservative world view.

The political dimension of Reaganism is the identification with an insurgent middle strata in a situation where capital has been seen to be under-represented, where popular constituencies have been demobilized, and where dissatisfaction with the means of Presidential nomination may lead to a reconfiguration of the electoral process seems likely. Absolute immiseration of the working class, excluding those "deleted" from it through structural unemployment, is unlikely in the United States under non-nuclear scenarios -- the "average guy" has seen few alternatives and insufficient need to activate her or his alienation.

Ideology as Material Practices

Ideology is a social practice, or as Therborn puts it, an ensemble of material practices rather than simply a system of ideas or a coherent discourse (Therborn, 1984, p. 103). This is the approach of Poulantzas and structural realism, an approach in which the "dull compulsion of economic relations" plays a major role in the organization of social life (Abercrombie, 1980, p. 6).

The term "ideology" is used in many different contexts. The purpose of this section is to emphasize ideological constructions which inform political macroeconomic practices. The political practices of the Reagan era are of course based on continual economic crisis, as

suggested 100 years ago by Marx and Engels: "The ruling ideas are nothing more than the ideal expression of the dominant material relationship" (quoted in Abercrombie, 1980, p. 7).

Brooks (1982) makes clear that the intellectual forebearers of Reaganomics were not, generally speaking, sharply identifiable with the ruling class. Yet their ideas were absorbed by capital through the structures of political power in the context of the predominant material need to restructure the capital-labor relationship. Experience since 1980/81 also shows that the supply siders were expendable once the idealistic component of their program clashed with the pragmatic interests of the capitalist state.

Yet determining the link between the dominant mode of production and reproduction and the ruling ideas has never been straightforward. Davis explores in detail the failed analyses of the ideological and material appeal of Reaganism by the "social democrats" in the United States (Davis, 1985). He points out much of Reagan's political success came from the Keynesian aspects of his economic program which provided a substantial shift in relative incomes toward the upper middle class.

This great conjuring act has created an illusion of Yuppie mobility and self-confidence -- 'the conservative opportunity society' -- that has besotted a large part of the white working class as well. (Davis, 1985, p. 64.)

At the same time, the left Democrats became marginalized by a "polarization between workerism and electoralism [which] coincided with, and was conditioned by, the decline of the Black liberation

movement" with the increase in Black patronage in the cities (Davis, 1986, p. 6). Indeed, the Reagan period has been marked by the President's ability to forestall political crisis while thrashing around with attempts to resolve the roots of the economic crisis.

These material practices can be divided into three forms: the systemic, the prosaic, and the politicized. These categories are not unlike the questions asked by Therborn: what exists, what is good, and what is possible?

The operation of ideology in human life basically involves the constitution and patterning of how human beings live their lives as conscious, reflecting initiators of acts in a structured, meaningful world. (Therborn, 1980, p. 15.)

The objective in examining political practices through these categories is to determine which aspects of ruling ideas are conjunctural and which are systemic and which are born by all classes and which are most relevant to the internal hegemony of the ruling class.

Systemic ideological practices are rooted in the nature of the social system, in this case late capitalism as a mode of production and a historical period. These practices are historically determined and lay beneath the organization of social life. As such, systemic ideological practices empower the utilization of private property and the sexual division of labor. These are also the practices which inform

the accommodation of historical subjects to the logic of the social order. These are the practices which Therborn emphasizes as those of "subjection" and "qualification" (Therborn, 1980, p. 17).

Prosaic ideological practices are the relationships of everyday life, including working class culture and the codes of the Establishment itself. These practices are bounded by the historical "rationality" of the social system but are determined by concrete material practices. These are also the practices which call the obedience of the ruled to the mechanisms of social reproduction. These are the practices which those who doubt the legitimizing power of ideology cite as the cement of the social system (Cf. Therborn, 1984, p. 79).

Politicized ideological practices are conjunctural, the episodic expression of social interests. These are the practices of conscious political behavior, those which are called forth to maintain or alter the existing relations of force in society (Cf. Hall, 1985, p. 120). These practices are conceptually parallel to Poulantzas' "relative autonomy of the state." They serve to provide resources to the alignment of classes within the systemic and prosaic norms of human existence. Yet they are not strictly determined by systemic requirements:

Ideology does not function as a necessary condition of existence of an economy. As dominant ideology, it may or may not be functionally useful, depending on historical circumstances. The functional relation of ideology and economy is therefore a contingent one. (Abercrombie, 1980, p. 185.)

Therborn points out that to a large extent political ideological practices are oriented toward the rulers, not the ruled: "a basic consensus among the ruling groups themselves, and consent to their legitimacy by members of the state apparatus" (Therborn, 1980, p. 109). Perhaps the real genius of democratic capitalism is the functional cohesion of relatively autonomous state and ideological practices in most circumstances. Therborn had asked earlier, what does the ruling class do when it rules, and it would appear that its rule over the state includes an "ensemble of ideological practices" which are rooted in material relationships of power and resources. Keynes' comment about the importance of "academic scribblers" represents the direct linkage between intellectual labor and political power. Certainly the reascendancy of laissez faire economic ideology and policy practices in the 1980s suggests this linkage is strong.

CHAPTER 8

SWEPT AWAY ON A SEA OF RED INK: Structural Macroeconomic Policy Formation

Introduction

Macroeconomic policy analysis is about government making rules. It is about the power of the state to utilize its resources to change the tempo of the most private part of capitalist society, the corporate sector. Because most of the state's macroeconomic policy decisions are not seen in their making, but only in their execution, analysis of macroeconomic policy formation raises again the question, what does the ruling class do when it rules? To ask this question raises its predecessor: does the capitalist class rule? This chapter provides some answers to these questions.

The previous five chapters explored the techniques of macroeconomic policy in their historical setting. The neoclassical economic interpretation may be characterized as a relatively unconscious search for a general social optimum in which the role of economics is to guide the fallibility of political decision-making (Cf. Nelson, 1987). The mechanisms of policy instruments are highly quantified, but the

processes of choice and implementation are not. The pluralist political science interpretations of these processes are similarly quantified and these interpretations have departed even from the social structure of interest group pluralism (Cf. Alt 1986, Hibbs 1977).

This chapter explores the making of macroeconomic rules. First, I discuss a general perspective on capitalist class rule. Second, a schema on structural processes of the macroeconomy is presented. Third, I examine the dynamics of capital reproduction (with an emphasis on the business cycle). Fourth, the political processes of macroeconomic policy formation are analyzed. Finally, the conclusion discusses some current information on interest groups in the United States and summarizes the argument. The final chapter links the analysis of this chapter with the historical record of the previous chapters in order to explore the future of the liberal state.

The possibility of macroeconomic management arose with industrialization which provided the technical requirements and resources necessary for a centralization of state control over social surplus. However, to actually wield macroeconomic policy required a class-wide identity of ruling economic interests, summarized by Poulantzas' conception of the power bloc, which could promote the use of these policy tools and avoid strangulation in intra-class economic competition. It is here that the relative autonomy of the state is at

its highest and yet at its most contradictory in policy decisions which have redistributive effects designed for the "general" welfare: the state's actions must be both class-less and class-based to succeed.

The actuality of macroeconomic management, as opposed to its potentiality, requires a policy-making superstructure which includes collection of economic information, centralized government taxation and spending power, the intellectual resources required for its prosecution, and an ideological commitment to such management. The arguments of Therborn and Giddens on the specific activities of state power are the cornerstone of the next section's examination of the class basis of macroeconomic policy formation.

The relationships among economic activity, the structure of the state, and public policy formation, are an unfolding historical process molded by the prerequisites of a concrete social system. In the United States, this process represents the evolution of a liberal, interventionist state in which the long-run interests of advanced capital are preserved while short-run accommodation to a particular constellation of ruling political fractions and class compromises is facilitated. Throughout the post-World War II period, multinational and finance capital have dominated state economic policy processes while regional capital interests have been expressed in the composition of the political leadership. Labor has been effectively marginalized following its political disenfranchisement under the Truman and Eisenhower administrations and its economic disenfranchisement under

the weight of internationalized capital. The history of executive branch organization since 1960 has been a history of centralization of macroeconomic policy activities, now residing in the domestic policy staff of the President (usually including the Secretary of the Treasury and sometimes including the Council of Economic Advisors) and the Office of Management and Budget.

Structuralist explanation emphasizes the enduring relationships within and between social sectors (economy and state), and this emphasis is appropriate to a long-run view of public policy formation. This chapter makes explicit my views on these structural relations.

Political Powers

Goran Therborn, in asking what the ruling class does when it rules, criticizes Poulantzas for failing to examine how the state is organized. He develops Poulantzas' idea of the state as a "relation of class forces" into a relation between state power and state apparatuses. State power arises from social class forces and state policies, exercised through state apparatuses (Therborn, 1980, p. 34). In order to manifest its powers, the state mobilizes three kinds of social "inputs": principles for undertaking policy tasks, criteria for recruiting state personnel, and modes for securing revenue. These are transformed by established patterns of decision-making into state actions, the outputs of Therborn's systems approach to Marxist analysis of state power.

The power of the state derives from two sources: its representation of the power relations in society and its ability to mobilize material resources to its advantage, specifically but not exclusively the forces of repression. Although the capitalist state "represents" all of society, it differs from previous forms of state organization through the incorporation of the "managerial technocracy" into state processes. This melding of people from different social classes in the apparatus of the state reduces the hierarchical aspects of state functions and reduces the gap between the public and private (i.e. capitalist) spheres (Therborn, 1980, p. 54). These managerial personnel are essential to the ruling class "holding" state power (Therborn, 1980, p. 181) and they are "held" to the state by personal and ideological grounds. (They are also subject to removal by the state.) The political personnel are "held" through the capitalist class' control of political parties, which also serve to organize the dominated classes around the ruling class.

To summarize, Therborn argues that it is capitalist ideology, in the form of representation and mediation, which plays the central role in ruling class power.

This has to be done in various institutionalized formats of representation and through various processes of mediation, whose function is to master the specific manifestations of the fundamental political contradiction: that between class domination and the execution of the societal tasks of the state. (Therborn, 1980, p. 243.)

Giddens makes a similar appeal to the concrete determination of state power:

As in the theory of power more generally, the capability of actors to achieve particular ends must be connected to the resources that constitute modes of domination.
(Giddens, 1981, p. 219.)

The ability of the capitalist state so to act derives from its structuralist composition as a capitalist state: its reliance on the reproduction of capital as the source of its resources. "The state's revenue is dependent upon the accumulation process, upon the valorization process, but it does not control these directly" (Giddens, 1981, p. 212).

It is clear that macroeconomic policy formation is constituted by those elements of state power which are linked to the economic structure. These linkages include: the source of state revenues and the structure of its bodies; the locus of its representation; the nature of its rules and techniques; the source of its technical personnel; the basis for the reliability of its political actors; and the source of political-economic demands on the state. Clearly the constitution of the economic system, and the separation of power within it, is reproduced as well in the legal authority of the capital relation and the separation of the public and private in state authority. Furthermore, the specific configuration of capital, in its national concentration and in its international integration, accentuates the determination of these power elements.

The symbolic relationship of these linkages is depicted in Figure 8.1 which divides the sources of state power into those primarily "determined" by the overall economic structure (an historical determination) and those primarily "determined" by the dynamic fluctuations of the macroeconomy (a conjunctural determination).

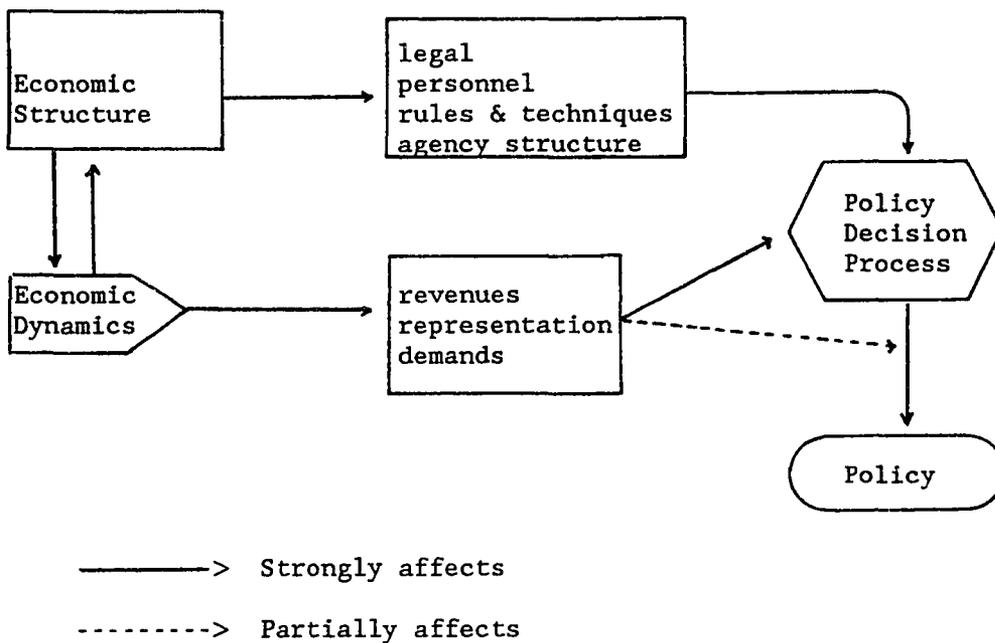


Figure 8.1. Sources of state economic powers

The remainder of this section provides a brief description of the major elements constituting macroeconomic policy formation. First, the nature of the expanded reproduction of capital (i.e. the processes

creating the industrial structure and industrial relations) creates economic departments and fundamental economic processes. These departments and processes (which will be discussed shortly) generate the basic income and product streams from which the state draws its material resources and through which the state is able to influence the course of the macroeconomy. These departments and processes also create separate locations of economic activity which generate the impetus for divisible economic bodies of the state. A particularly cogent example would be development of the Federal Reserve in response to the monetary requirements of valorization and the development of the Treasury from the realization of value (i.e. income).¹

Second, the structure of capital (and labor) also provides the locus for distinct forms of representation, many of which are reflected in the committee and advisory structure of the state, through the Congress and the executive branch (including the Secretarial departments). Third, the corporate sector has developed a whole series of decision rules and technical processes which translate fairly directly into the state's policy formation superstructure.

Fourth, the capitalist macroeconomy provides a subject for intellectual labor. The technical constituents of macroeconomic

¹ Giddens quotes Lindblom: "Because public functions in the market system rest in the hands of businessmen ... government officials cannot be indifferent to how well business performs its functions." (Giddens, 1981, p. 212.)

processes occasion the development of mainstream economists who generate explanatory systems, policy directions, and personnel for the state's macroeconomic management. Their reward system is amplified by the capital sector, especially through the major universities and think tanks, and through contract intellectual labor and interchange with corporate leadership. Fifth, the reliance of political figures on the political parties links their decisions to the capital sector which provides the key resources to these organizations. This does not insure their reliability but it encourages long-term trustworthiness. Finally, the cyclical behavior of the capitalist economy generates direct material impacts on different segments of business and labor. These impacts provide the potential for political response, although the actuality of this response often requires additional political stimulation.

While these elements of macroeconomic policy formation are structurally determined by the nature of capital's reproduction (i.e. the economic structure provides direct enabling resources, constraints, and mediations to the state structure), this is not a unilateral determination of economic forces but a combined determination which includes a number of conjunctural factors. The basic framework of macroeconomic policy formation develops historically, yet the immediate locus of decision-making involves a whole series of powerful influences. As a result, while in the long-run the capitalist state is pushed toward preserving the hegemony of capital, with a particular emphasis on the ascendant fractions of capital, there are numerous

shorter-term tendencies which may over-ride this interest. Even in the long-run, to the extent that the power bloc is not relatively homogeneous, as is frequently the case in the underdeveloped capitalist countries or in periods of social crisis in the advanced capitalist countries, macroeconomic policies and policy formation processes may prove contradictory to the long-run interests of capital. There is also no guarantee that the current composition of the state will correspond directly to the current social dynamic. As Therborn notes:

In the historical course of the class struggle, the state apparatuses come to crystalize determinate social relations and thus ... are to a certain extent independent of current state policies and class relations. (Therborn, 1980, p. 35.)

This potential "variance" in the state's structure provides the strongest rationale for the development of bodies of the state which can be linked directly to individual components of the capital reproduction process and thus act as "refuge centers" in periods of crisis (to be differentiated from periods of simple economic distress). The development of macroeconomic policy making in the United States suggests that such centers are an important element in the state structure.

The next section explores the generic relationship of the economic structure to state powers while the following section emphasizes the impact of economic dynamics.

Macroeconomic Structures and the State

Macroeconomic policy is presumed to work effectively to some degree, although the extent of its effectiveness may be challenged (Cf. Romer, 1986). National (and international) economic policy decision-makers implement (or call for the implementation of) fiscal and monetary policy in anticipation of tangible policy effects. Although there is a purely ideological component to some of these efforts (e.g. government as the regulator of a socially acceptable capitalist economy), the primary focus of such policy is the actual performance of the economy in major aggregates. This section discusses the macroeconomic processes which affect public policy formation. These macroeconomic processes should be considered as a mixture of technical linkages, in particular the structure of capital production, circulation, and reproduction (accumulation), and a mixture of social relations, in particular those between capital and labor. This mixture determines the basic policy tendencies for which the state acts as synthesizer. Figure 8.2 summarizes these relations.

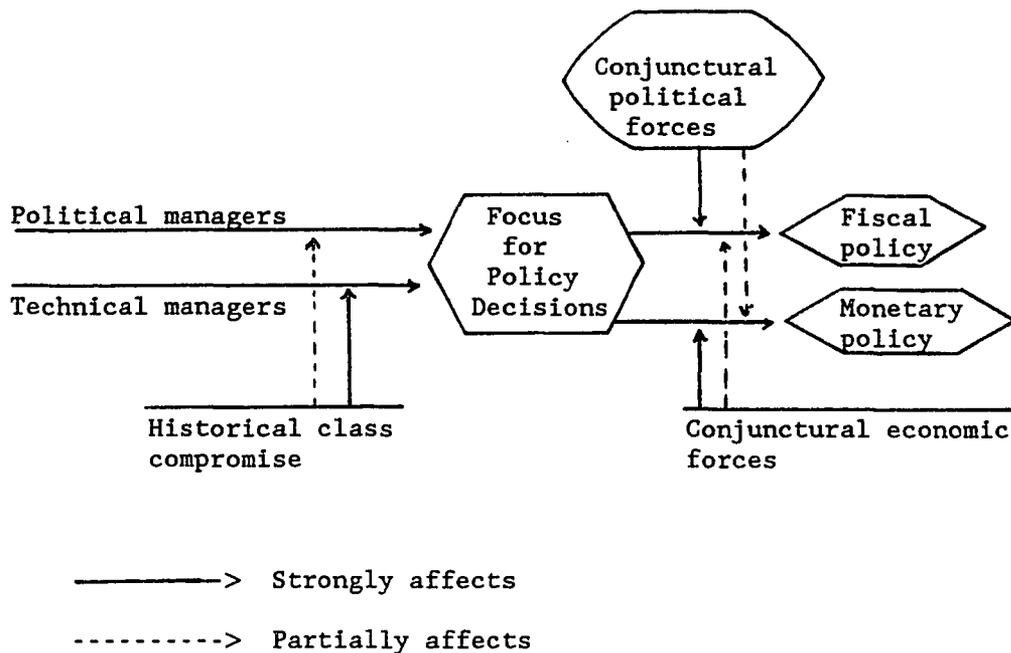


Figure 8.2. State macroeconomic policy relations

The basic principle of this diagram is that macroeconomic policy (as viewed by its fiscal and monetary outputs) is an interplay of conjunctural political and economic forces, historical class and institutional arrangements, and the technical nature of macroeconomic policies and their implementation. Technical economic forces, from the business cycle to long-term growth dynamics to international competition, generate the policy making focus. It is through this focus that state managers operate.

Technical economic forces (the processes of the macroeconomy) determine the relative economic effect of fiscal and monetary policy

(non-tariff trade policy being a combination of the two). They are also the terrain upon which policy operates, and ultimately they generate a whole series of social class positions.

Political managers in the United States have a stronger position vis-a-vis fiscal policy because of the institutional arrangements of taxation and government expenditures. Technical managers have a stronger position in monetary matters which is shielded from public light. Their joint ability to carry out macroeconomic policy is mediated by the nature of the historical class compromise which has determined the existing mix of policy options, and by conjunctural political events. As Therborn points out:

Formal legislation has lost ground to wide discretionary powers, whereby the government and top administration dispose of public funds in accordance with their economic strategies and statistical information. (Therborn, 1980, p. 89.)

Stockman's The Triumph of Politics shows both processes -- the ability of Reagan's supply-side economic strategy to be implemented almost by decree (the domestic budget cuts and tax restructuring) and the eventual erosion of that strategy by the "statistical" irregularities of its application.

In more general terms, the relative autonomy of the state allows it to make policy initiatives and attempt class-wide compromises but the basic integration of the state within the expanded social reproduction of capital means that state policy is not independent of the capital

sector, in particular, policy is not independent of the fractions of capital which comprise the power bloc and hegemonic capital. Some elements of the state act primarily as political managers for the ruling bloc while others act primarily as technical managers for capital. The political conjuncture determines how harmoniously these elements cooperate while the economic conjuncture determines the effectiveness of these policies.

The key macroeconomic policy sites for capital are those especially opaque networks of policy planning and formation which have been developed by established capital, supplemented by ascendant capital in the power bloc, institutionalized in their relationship to the state, and increasingly managed by direct representatives of the current political conjuncture. This does not seem to have challenged the relative autonomy of the state in the United States, but it seems to be increasingly the case in areas of organized labor resistance, as in Britain.

Blinder and Goldfeld argue that in measuring the impact of fiscal and monetary policy "requisite data cannot be observed directly" (Blinder, 1976, p. 780). The data that can be observed are aggregate measures of economic activity. To examine the underlying mechanisms of macroeconomic policy we take a qualitative approach.

Evidence from the history of macroeconomic policy formation suggests that the development of capital-conscious economic policy (i.e. policy which generates support for capital) is nurtured by the durability and extent of industrial and financial power within the social formation.

This power is determined by a number of economic, political and social factors, but being an industrial and financial strength, it is determined in the first instance by the linkages of the economic system. These linkages are also enduring human inter-relationships which are structured by the nature of capital, i.e. by the demands of the capitalization process in the production and circulation of value.

The fundamental departments and processes of capital reproduction have direct links to the state's macroeconomic policy superstructure because of the resources, personnel, and ideas these departments generate. The locus of these elements in the different parts of the economy provides unique translations of economic dynamics into the bodies of the state. This differentiation reflects Giddens' emphasis on time-space distanciation in capitalism, especially the reorganizing role of capitalist production and exchange (Giddens, 1981, p. 92 ff).

The matrix of sequences of the different departments of the economy (types of industries) indicates the locus for these relationships. The producer goods industries (Department I) are composed of two types of industries -- those with strong forward linkages (industries such as those in the mineral extraction whose primary business is with those

who purchase their product) and those with both forward and backward linkages (investment goods) which are dependent on the consumer goods industries (Department II) for the realization of their surplus value, and on supply from the primary producers. There are also those industries attached to the realization of value created in the first two departments, what I term the "realization & services department" (Department III), whose basic link to the productive cycle is through the flow of funds, as income, monetary assets, and transactions.

However, what works for reproduction formulae (in the Marxist case) or input-output analysis (in the mainstream economics case) does not translate directly into policy impact. Even when differentiating the types of industries, the macroeconomic implications of economic and political policies are not unilaterally and unidimensionally transmitted to each type of business within an industry because of regional differences in economic structure and because of conglomeration. The producer goods department is at the heart of the business cycle as compared with the consumer goods department whose linkages are split between production and secondary realization of income. This accounts for the different structural implications of the business cycle.

The following figure (Figure 8.3) illustrates these effects through the differentiation of primary incremental value requirements within each department at each stage of capital's reproduction. The essential point lies in the simple formula of value reproduction: $M - C - C' -$

M', the transformation of money capital (M) into commodity capital (C) as productive inputs and then expanded into final production (C'), realized as expanded monetary capital (M') which includes surplus value (S). Departments I and II are the producer and consumer goods industries as known in the classical Marxist analysis, while Department III (as the "realization & services department") differs from classical Marxist analysis but relates more completely to an analysis which includes monetary phenomena.

The primary requirement for the production stage in the producer goods industries is money capital, M(I), expended either as past or present fixed capital and as current circulating capital for productive inputs. The realization of this capital requires an increase in the economy's stock of capital, K', through the actual purchase of the commodities produced in Department I. The incremental value of this production is accumulated as surplus value, S(I).

For the consumer goods industries, production is predicated on production in the producer goods industries as physical commodity capital, C(I), and on the availability to Department II of money capital, M(II). This is realized through the expenditure of the exchange equivalent of variable capital, V. Accumulation is similar to the producer goods industries.

The realization and services department represents the non-productive activities associated with firms of the first two departments and the independent activities of firms existing in a symbiotic relationship with the productive industries (such as marketing and banking) which are involved in the monetization of the final product and in reallocation of surplus value. These firms are not involved directly in production (although they use assets, resources, and labor which might be allocated to the productive sectors), but they require a share of total surplus value for the reproduction of their own extended capital.

The demands of each sector depend on capital utilization and labor productivity in the short-run. In terms of long waves of growth and stagnation, more fundamental determinants of capital accumulation also apply (such as the diffusion of technology, expansion of the capitalist market worldwide, etc.). Furthermore, the domestic and international linkages of production, realization and accumulation affect the determination of profit and the differentiation of position within the macro political economy. The macroeconomic policy importance of these fundamental strata has a mediated effect on policy formation. While these strata help shape much of the policy superstructure, the dynamic movement of macroeconomic processes plays the primary technical role in policy implementation.

<u>Department</u>	<u>Stage</u>		
	<u>Production</u>	<u>Realization</u>	<u>Accumulation</u>
Producer goods (Dept I)	M(I)	K'	S(I)
Consumer goods (Dept II)	C(II) + M(II)	V	S(II)
Realization & services (Dept III)	N/A	M'	S(I) & (II)

M represents Money capital;
 C represents physical Commodity capital;
 S represents Surplus value.
 K' represents constant capital;
 V represents Variable capital,
 the value of labor incorporated in production;

 (I) & (II) represent department subscripts; and

 N/A means not applicable.

Figure 8.3. Requirements of capital reproduction

Macroeconomic Dynamics

The previous section described the generic aspects determining the macroeconomic policy superstructure. In addition there are three distinct components in macroeconomic policy formation: response to short-run cyclical crises, long-term growth policy, and mediation of transnational and multinational capital interests within a national social setting. The short-run cyclical economic processes can be considered a mixture of automatic and crisis-oriented responses by the state to the changing tempo of economic activity and the class relations which correspond to those changes. The long-run growth policy processes can be considered fundamental to capitalism's success as a historical social formation. The international components of macroeconomic policy reflect the competition between segments of capital within the nation-state framework.

Capitalism has an inherent tendency toward short-run cyclical crisis and probably a persistent trend towards long-run economic stagnation (i.e. the under-utilization of labor and capital). These tendencies arise from competition among different segments of capital over real investment and competition between capital and labor over the share of value produced. The former is the inevitable result of private control of investment resources whose application tends toward over-capacity as competing segments of capital seek to obtain above normal profits. The latter is the practical result of labor's alienation from production.

The business cycle is the most immediate and powerful endogenous force in the economy, and its effects are asymmetrical. While the realm of money, i.e. the circulation of monetary capital through the banking and securities sector, has a certain independence from the immediate performance of specific sectors of the national economy, the processes of production are primarily determined by the impact of recession. Although many economic indicators operate in a symmetrical fashion in both up and down phases of the business cycle, and long-term growth can ameliorate the impact of "growth recessions," it is crisis which reveals the character of the human impact of the tempo of the economic system and its ability to respond to these changes.

A downturn in economic activity involves factors central to the process of production and through production to realization and accumulation. While it is apparently the productive sectors which are first affected (downturns in plant and equipment orders, construction starts, etc.), already the business cycle will have affected class practices through the previous growth phase's effect on the proletarianization of the work force. The downturn begins to break the influence of labor in the production process before it affects the exchange relations of this labor. Declining profits lead to crises of economic relations, and combined with the layoffs associated with declining capital utilization, the crisis of overproduction is transferred into the realm of the realization of value. The downturn also reduces state revenues and increases its expected expenditures.

Because capitalism is based on a class formation rooted in industrialization (productive labor), the initial political impact of an economic downturn is more likely to be transmitted almost automatically by industrial capitalists to political managers. They are the ones faced with inventories, accelerated increases in per unit costs through over-capacity (declining rates of utilization), and labor force readjustments. At the same time, to the extent that "automatic stabilizers" such as unemployment insurance are institutionalized, the political effects of this response to an economic downturn are transmitted back to the industrial sector, validating the dislocations. However, to the extent that the class structure has evolved away from the industrial structure (or had not yet evolved in the case of early capitalism), this direct link is weakened. State response to crises in the sphere of the realization of capital values (sales and services) is significantly delayed since more economic components become involved with more contradictory interests. A good portion of the policy dilemma in the United States in the mid-1970s was the conflicting pressure of stagnation and inflation, and the especially uneven impact of inflation on different sectors of society, not just in terms of income distribution but also in terms of financial responses.

The "natural" inclinations of a state structure rooted in the manufacturing sector are to attempt to avoid liquidity crises and to regain control over the productivity of labor. These are the factors central to business survival in the short-run and to the restoration of the

rate of profit for future capital accumulation. The history of crisis management in the United States substantiates this perspective, especially when looking at the 1974/75 recession, the 1979/82 recession, and the 1971/74 price controls program. Crisis management witnessed a decade of inflation and an erosion of labor union prerogatives.

If the crisis deepens into a general crisis of realization, threatening a crisis of social reproduction, then the dilemma for the ruling bloc, and hegemonic capital in general, is the contradiction between the restorative aspects of recession (especially increased industrial concentration, the consolidation of secondary and tertiary businesses under industrial and finance capital and increased control over labor) and the political dangers of reduced income and aggregate demand. State response to an economic downturn clearly depends on the severity of the decline and its historical context, the class composition of the ruling bloc, and the nature of political organization (including "spontaneous" class practices from left and right). This dilemma has been largely avoided in the United States since the Great Depression, although the uncertainties over industrial productivity policy in the early 1980s reflected concerns about the ability of the social structure to survive an extended period of capital restructuring.

Inflationary periods, which once were associated with business cycle upturns but which now are more closely associated with anti-recessionary policy, have a disproportionate effect on the financial sector. As prices rise, the value of set interest rate payments declines. As interest rates rise, borrowing is also reduced. The effect is to squeeze banks, which then communicate with their allies in government.

The mid-1970s inflation showed a multifaceted response by finance capital. First, higher risks were taken on loan portfolios, and to the extent that these risks were internationalized, the banking industry sought Congressional relief. Second, deregulation of banking was accelerated, which allowed for concentration and consolidation of the financial industry and which also promoted a new series of credit instruments, in particular flexible interest rates. Third, the velocity of money (rate of turnover) increased dramatically, and this altered the relationship between the stock of money and the price level. Finally, the financial sector was able finally to push macroeconomic policy into the Federal Reserve, initially as a refuge center from political pressures for loose fiscal policy and eventually as the dominant macroeconomic policy orientation. Through this period, industrial capital was beset by structural problems -- mergers with finance capital (especially in its multinational form) and starvation of productive investments by the length of the economic downturn and by the new financial conditions.

The rising organic composition of capital (replacement of labor power by fixed capital) and the attendant struggle over the rate of surplus value are the essential social relations of crisis capitalism. Transnationalization and internationalization of capital transports these tendencies across borders, but the social basis for capitalist production, in particular the wage labor relationship, is still domestic since the site of any particular investment and productive labor is nationally-bound. Therefore the locus of social dissent, and political pressures, from the crises of production and realization will remain, for a long time, domestic. The short-run crises of capitalism will retain their character as domestic social crises until they are generalized into deeper, internationalized social crises in combination with downturns in the longer-term waves of economic growth and contraction.

Advanced industrial capitalist countries also have shown tremendous long-term growth records and only a portion of that growth can be attributed to unequal exchange and dependency through imperialist economic and political relations. The history of the post-World War II period shows that short-term economic crises can be ameliorated, although they cannot be entirely avoided. The state has reduced fluctuations in income which has promoted greater social stability, encouraging long-term capital accumulation and reinvestment. This is central to what state managers must think they are doing with macro-economic policy. These policies must be credited as an important ingredient in the success of capitalism since the Great Depression in

avoiding potentially revolutionary crises resulting from economic stagnation. State-managed capitalism has been able to trade-off short-term "capital gains" for labor productivity, and labor tranquility (in the form of the social wage) in exchange for long-term neo-corporatism (the diffusion of legitimate workerist politics into mainstream classless politics, in the United States primarily through the composition of the Democratic Party). In some cases the state also has been able to promote long-term economic growth policies either in competition with capital of other states or at the expense of "backward" sectors of national capital. This too is at the heart of what macroeconomic managers think they are doing.

The ability of the capitalist state to ameliorate short-run national economic crisis does not solve the problem of economic instability since over-capacity not only is endemic but the offsetting Keynesian policies can lead to inflation and valuation crises. Nor does macroeconomic policy solve the problem of shifts in the regional and sectoral composition of domestic capital currently taking place in most advanced industrial capitalist countries. The domestic problems are intensified by the competition internationally between "national" capital, i.e. the trade and investment competition by corporations based in different countries. The transnationalization of capital has posed the potential for changing aspects of the international relations of like segments of capital, but it does not address any of the other

elements of the international macroeconomy. This is perhaps the greatest quandary of the modern state: the internationalization of its capital base and the continued national form of its labor base.

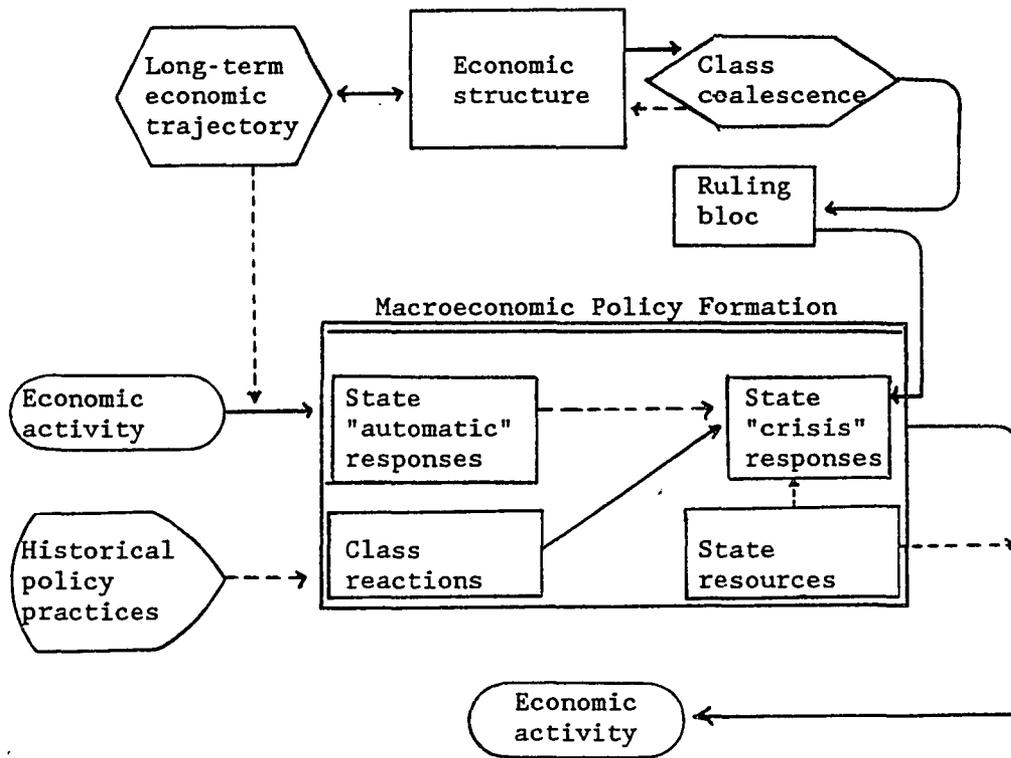
If the crises of capital are related increasingly to the international character of capital's reproduction, nation-state managers must choose between multi-state coordination of economic policies and the defense of their own nation's production. However their ability to choose will be mediated by the national-international composition of the dominant class fractions in the power bloc. If capitalism's growth is increasingly internationalized, but the distribution of that growth is increasingly fractured (if growth is increasingly uneven between and within countries), then state managers will have a new range of macroeconomic political problems based on the instability of location in capital's growth.

Macroeconomic Policy Processes

The previous two sections concentrated on the internal rhythm of the macroeconomy and its linkages to the state policy superstructure. This section concentrates on more explicitly political linkages between the class fractions which have certain positions in reference to the macroeconomy.

The nature of state responses to short-run cyclical crises is already set by the historical composition of the state and its history of macroeconomic management. Examples include the automatic triggering

of unemployment benefits and the tendency toward use of a looser monetary policy following the on-set of recession. However, there is also an explicitly politically-conscious element to this policy formation process, as shown by the persistent tightening of monetary policy under Volker. These two types of processes are depicted in Figure 8.4 which also identifies the other systemic forces which constrain or mediate these state responses.



————> Strongly affects
 - - - - -> Partially affects

Figure 8.4. Processes of macroeconomic policy formation

This figure shows the influences of capital and labor relations on state policy-making relations. Capital's internal relations determine the tempo and design of macroeconomic policy formation, subject to other political considerations. The nature of industrial relations determines the tone of policy implementation, and the structure and integrity of labor determine counter-policy initiatives. While the current tempo of economic activity is the primary determinant of state policy initiatives, these initiatives are conditioned by past historical practices and by the long-term trajectory of the economy. These practices, and the basic structure of the economy, determine the potential forms of policy. The nature of class reaction to the tempo of economic activity is mediated by the nature of historical class coalescence. State crisis responses are responses to class reactions to economic activity, but these responses are vetted by the ruling bloc through the executive branch and the informal pathways of the power center. Collectively these forces attempt to change short-term aspects of macroeconomic activity, although the actual nature of the economic structure determines the effect of the implementation of these policies.

The economic character of the state is nurtured, if not entirely determined, by the long-term requirements of hegemonic capital. The same factors as outlined in the previous paragraphs on short-run cyclical policy formation hold true, except that the effects are on a long-term structuring of government and its apparatuses, and on the

social climate for economic growth. This includes longer-term strategies for dealing with labor and with the needs of ascendant capital. International influences on macroeconomic policy formation appear to be a combination of short-run and long-run factors, depending on the nature of the international economy at the time. Figure 8.5 depicts the long-term and international macroeconomic policy determination processes by emphasizing the competition for policy direction amongst competing segments of capital.

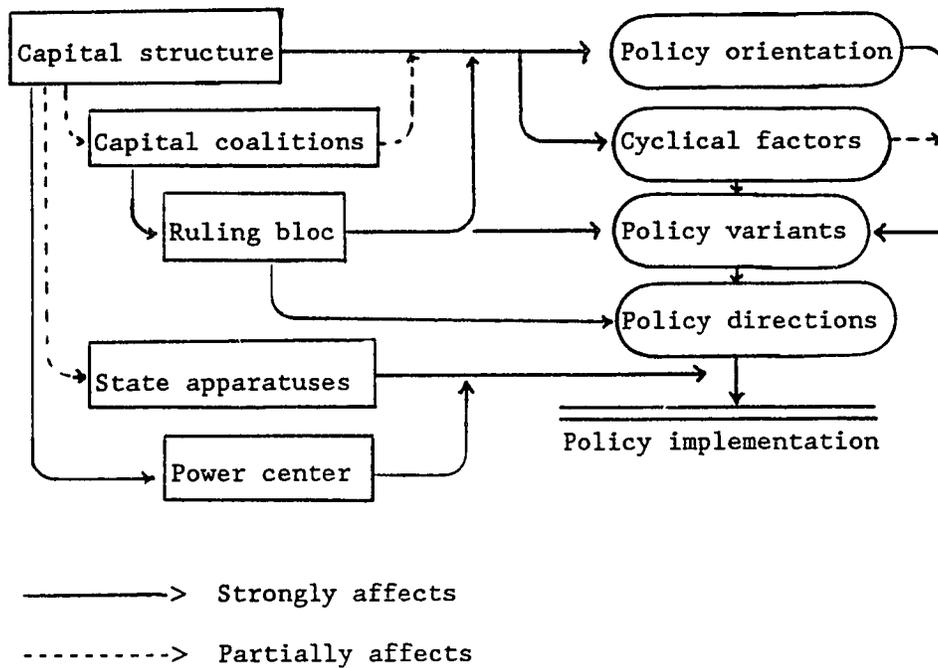


Figure 8.5. Capital structure influences on public policy

This figure indicates the importance of the structure of capital in determining primary "policy variants" while the ruling bloc plays the central role in determining the final policy direction. The previous sections have explained the dynamic effect of different segments of the economy on the process of macroeconomic policy. These effects, from enabling policy centers within the state superstructure to determining the nature of the linkages between economic sectors to shaping the potential effectiveness of policy, are depicted by the lines leaving "Capital structure" in the diagram. The linkage between "Policy orientation", "Cyclical factors", and "Policy variants" concentrates on the dynamic factors in the macroeconomic determination.

The actual implementation of policy (as contrasted with its formation) is determined by the political weight of potentially competing class fractions, as indicated by the parallel influence of the ruling bloc and the power center on policy implementation. The ruling bloc has a closer connection with policy choice than capital in general (which is shown to influence only "Policy orientation", but the power center, as a presence in the state, has the final mediating influence on the actual implementation of macroeconomic policy.

Besides the direct effects of capital composition on the nature of economic policy formation, class practices by labor and popular initiatives have the potential for strongly mediating the policy formation and implementation process. However, in the current period, the influence of popular initiatives and the non-executive bodies of

the state (e.g. the Congress) has diminished, calling into question the macro politics of the political calculus. However important working class self-expression still may be at the micro level (i.e. at the workplace and occasionally in local politics), it is clear that the national political influence of organized labor has collapsed in the United States. The structural relations of labor's political activity are depicted in Figure 8.6, but labor's strength is dependent on its own level of organization. The current lack of labor's political strength seems to be a feature peculiar to the United States, as shown in the continued strength of social democracy in western Europe and of popular front governments in the Third world. However, in terms of macroeconomic policy, even these labor interests are clearly mediated by the liquidity and profitability requirements of capital. All else pales before generalized bankruptcy, as shown by the success of the Thatcher government.

Industrial relations are determined in the first instance by the technical relations of production, including the extent of labor force proletarianization and the level of labor discipline. The business cycle co-determines the degree of labor combativity and its potential political effects, and the nature of historical compromise between capital and labor is essential to the overall tone of the implementation of macroeconomic policy. These capital - labor relations are important mediators of the class political content of macroeconomic policy. Labor's internal cohesion is a primary determinant of its effectiveness in mediating the determination of macroeconomic policy.

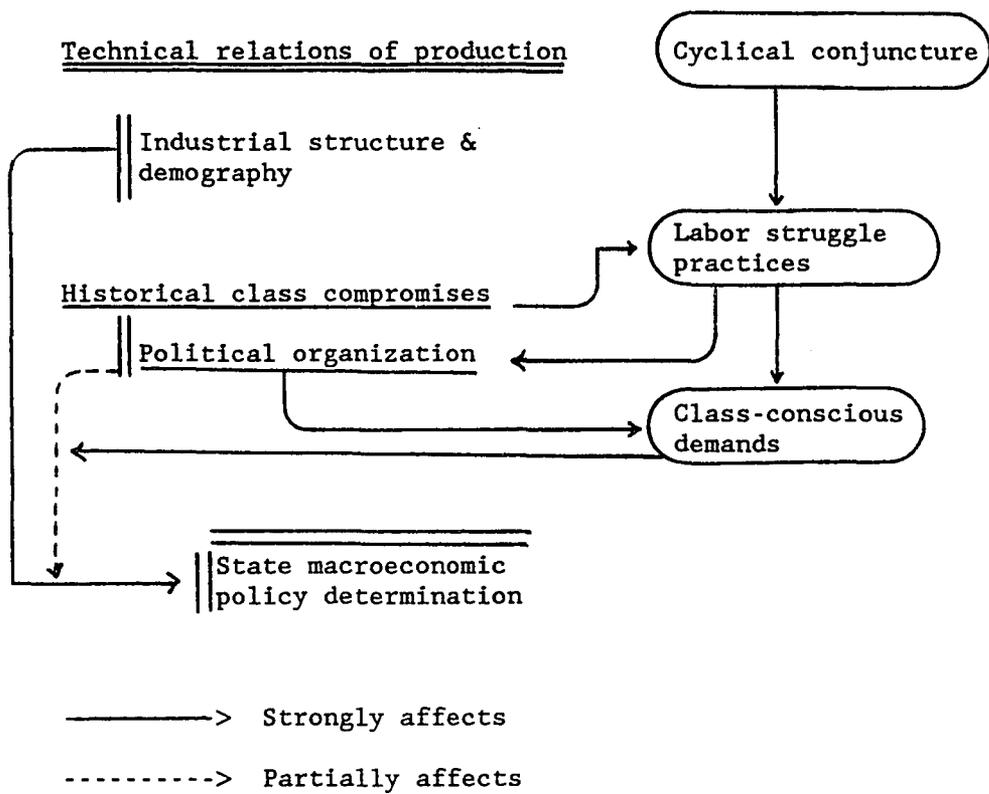


Figure 8.6. Labor and industrial relations in public policy determination

Central to the marginalization of labor in the United States are the dominant political parties. Interest congregations generally have been incorporated into the Republican and Democratic parties, whether as Right to Life or La Raza movements. Given the capitalist nature of these parties, the homogenization of contending interests with those of the established and ascendant elements of capital is not surprising. In the United States, the impact of popular interests has been extremely weak since the late 1960s. Similarly, the economic role of Congress has been reduced, since its source of independent strength lies in popular mobilizations and in strong economic and political interests which lie outside the immediate interests of the executive branch. Instead, Congress is fractionalized. Failing such popular initiatives, macro-economic management has proceeded effectively unopposed by labor.

A final and extremely important point is underscored by depicting capital influences on the public policy formation process (Cf. Figure 8.5). Historical analysis of macroeconomic policy formation in the United States makes clear the importance of a coalescence of hegemonic capital and a politically-validated policy. This determines not only which policy will be enunciated but which policy will be most effectively implemented in the case of conflicting policy directions. In the latter we see the importance of the informal authority of the hegemonic social class fractions in establishing "power centers" within the hierarchy of state agencies. These power centers, which are similar to Poulantzas' "refuge center," reflect the merging of hegemonic class fractions with state agencies in interests, outlooks,

ideology, and personnel. As such, they reflect the class power relations of the state itself, relations which are linked directly to the resources of capital.

Examples exist of liberal capital's influence on the outcome of the 1944 Bretton Woods design of the international financial system through direct recruitment of articulate economists with internationalist perspectives. Similarly, the support of research staffs at various Federal Reserve banks, the establishment of almost independent research groups within Cabinet departments, and the participation of civil service managers in endowed seminars at universities and foundations each contribute to this direct link. In order to generate this support, and to establish a locus within state agencies, the entire coterie of capital resources must be applied. This intensifies the power of ascendant (and old) capital and diminishes its rivals.

This process could be seen at the highest level in the economic history of the Carter administration. Carter was nominated as a representative of multinational capital in a general program of relegitimation of state authority and state prerogatives, as argued by his connection to the Trilateral Commission's program for the restoration of capitalism. His Presidency must be heralded for extending the reach of deregulation, a step which played a crucial role in Reagan's economic strategy. However, when faced with intractable macroeconomic policy choices, and a technical (if not possibly personal) inability to mobilize economic policy and social pressures to

resolve the economic crisis in favor of capital, multinational and finance capital anointed the Federal Reserve as the macroeconomic power center. This effectively removed Carter from macroeconomic policy and ended this aspect of his Presidency. The mechanisms and resources existed within the Federal Reserve to guide economic policy following the marginalization of Carter because of the historically linked development of finance capital and the state, and these macroeconomic policy choices were legitimized by those parts of the state (including the editorial media) which were attuned to hegemonic capital.

These "dual" aspects to state policy formation cannot persist, since they represent unfinished conflict within the ruling elite, but they apparently can persist for some time until a hegemonic conception of policy is determined and validated. The state avoids political and social crisis to the extent that it succeeds in convincing people that the alternatives to its policy are either ineffective or illegitimate. The more persistent the internal crises of the state, the more likely the development of "refuge centers" for effective state policy.

The 1970s represented a major shift in capital structure and in capital-labor relations in the United States. The ambiguity of the transition exaggerated technical problems in dealing with stagflation, although these problems were endemic in the post-Vietnam war economic environment. The direct link between the Federal Reserve and the banking system, and thus the direct route to monetary policy (subject of course to a number of vicissitudes in its effectiveness), emphasizes

the importance of monetary policy in the last quarter of the twentieth century, a period in which governmental confidence in a range of policy tools is limited. As the economic transition was completed, the "refuge center" became the acknowledged center and is no longer an outcast. Presumably a new alternative power center is being nurtured within the state bureaucracy, quite likely in the internationally-oriented bodies of Treasury and Commerce.

Potential competition within the state itself, and in the government in particular, points to the important linkage between policy formation and policy implementation. Thurow is correct to emphasize the importance of control and availability in such implementation. Just as the media is important in the legitimation of policy, so are the institutional relationships of government agencies to components of the economic system (Lester C. Thurow, Los Angeles Times, 6/14/87).

These macroeconomic policy processes involve each of the elements of state power identified by Therborn. There are distinct policy "inputs" in terms of historically-structured capital-state linkages and in terms of conjunctural changes in the immediate social forces touching the state. The processes of transformation -- the rules for handling policy tasks and the reorganization of state personnel by political leadership -- can be differentiated by elements within the structure of capital, the nature of the economic trajectory, and the context of the current political situation. The policy "outputs" are increasingly shielded from public scrutiny with an increased emphasis

on indirect (e.g. monetary) effects. These relations represent the real sources of the state's macroeconomic power (what the ruling class does when it rules). The multiplicity of linkages with capital suggest that the capitalist class does rule, but it does so indirectly. The final (next) section explores some of the particular interest congregations which have dominated U.S. macroeconomic policy in the past 20 years.

Conclusion

Pluralist political theory begins with interest groups. To a certain extent structuralist political economy ends with interest groups. The difference is substantial. The former has a strong presumption of equitable political competition and of a politics residing in the public sphere; the latter presumes a structuration of policy based on underlying political and economic relations and a sharing of power between public and private spheres. This difference is explored in the remainder of this chapter.

The financial ties which bind the interests of capital together incorporate sociological and economic processes in the composition of the ruling elite. Domhoff (1970, 1978) specifies four processes through which the upper class expresses its hegemony: special interest powers, the policy formation nexus, candidate selection, and the formation of ideological consensus. Ownership of the means of production is the central component developing political control, but this resource must be translated into political action through non-conspiratorial means.

Perhaps of most importance is the network of policy-planning groups which congeal corporate interests and take them into government.

These particular institutions [policy, ideology and planning groups] play a role in unifying a system-supporting position on various issues before the state that transcends particularistic private sector or bureaucratic interests. (Alpert, 1980, p. 179.)

Much as with Silk's "national force" of the American Establishment (Silk, 1980, p. 20), the competition for developing a public policy in capital's interests depends on a hegemonic agenda. This seems to me to be essential, although it leaves tantalizingly open the question of the final selection of policy.

If it does not depict a untied power elite that always gets exactly what it wants, it does describe a power elite that has always been able to defend the privileges of the ruling class in the face of every insurgency it has faced. (Domhoff, 1979, p. 119.)

While the power bloc includes currently ascendant fractions of capital (as well as established wealth, landed wealth, etc.), the long-term interests of capital accumulation are protected and fostered, to the extent possible, by the self-organization of the "establishment", by the structures of the capitalist state, and by the inter-connections of the economic system itself, in which industrial and financial concentration have superior "staying power" over many forms of new capital. The "establishment" is not a long-running cohesive group frequently imagined as beholden to the Rockefellers or the Rothchilds, although such cliques of wealth obviously exist, but it is formed by

the nature of capital's growth. Its political strength lies in its historic, accumulated, and concentrated economic wealth. For years this has meant the dominance of eastern industrial and finance capital in the United States, but multinationalization and the rise of the southern rim have begun to change this cohesion as industrial weight declines and international linkages increase. However, as Crawford notes (1980), recently ascendant fractions of capital may not have a long-term basis for dominating public policy. Not only are the political power networks of these newer class fractions less firmly grounded, but with less accumulated wealth, their economic power is more subject to short-term economic fluctuations and other transitory factors. Although the political superstructure may be more influenced by recently ascendant capital, the state superstructure, through its relative autonomy, will have a tendency toward economic policy conservatism. This was shown by the long period required to integrate into the U.S. government an interventionist macroeconomic policy, and it may also be seen by the unraveling of Reagan's conservative economic agenda in favor of the internationalist agenda begun with Nixon.

Equivalent to the concentration of economic power, however, is a centralization of government power which is entrenched in the civil service and appointee staffs of the political figureheads. Dye (1979) notes that those at the top of the power hierarchies are strongly connected, either through function or through their networking roles (including education in like-minded colleges), and this promotes a

consensual attitude toward leadership (at least during normal times). The availability of resources for setting the political agenda for the "proximate policy makers" is a function of corporate and personal resources in the private sector and control of government resources in the public sector.

The relative autonomy of the state does not isolate it from these tendencies, as seen by the increasing turnover in top management positions in the Federal civil service and the increasing concentration of available policy instruments in agencies dominated by political appointment (e.g. the Office of Management and Budget). As Giddens points out:

Capitalist societies introduce a white heat of economic change and technological innovation that both resist and stimulate state 'management' of the economy as a whole.
(Giddens, 1981, p. 214).

In response to the "politicization" of macroeconomic policy management, there is an increase in the influence of state agencies relatively unencumbered by short-term political recomposition (e.g. the Federal Reserve). The long-term structuring of state relations in concert with the historical structure of capital serves to develop policy bases which are alternatives to those controlled by the current ruling bloc.

The arrival of the radical right is connected to the regional expansion of new money (Dye, 1979), but its ascendancy is not necessarily enduring since its historic relationships are underdeveloped and its material base is subject to economic variability.

Domhoff (1979) views the resurgence of conservatism as a function of the uneven development of capital accumulation and thus as having a more enduring basis for influencing public policy. However it appears that the radical right has been especially unsuccessful in building a base in the Federal agencies. This stems largely from the historic development of the U.S. government as a liberal state whose relative autonomy from capital and whose liberal democratic strictures are ultimately frustrating to those imbued with the entrepreneurial ideology. Although a cadre of new right technocrats may develop over time, their willingness to commit themselves to the state over their career is uncertain at best.

As for the long-term prospects for capital, Davis (1984) argues that the rise of the Sunbelt is a failure of post-World War II "Fordism", a failure of industrial reproduction in domestic (i.e. U.S.) capitalism. The causes for this failure are chiefly the internationalization of production and the overconsumptionism of the middle class. The former is a historic process in capitalist development; the latter is accentuated by political alliances which arose in response to the failure of industrial reproduction, in which the burden of structural realignment of U.S. capital is shifted onto the deskilled majority of the U.S. workforce. The effect of this failure of productive reproduction on the nature of the state is also not certain.

Finally, the disembowlement of the U.S. labor movement has increased dramatically the freedom of movement for capital, both privately and publicly. Davis (1982) has also discussed this phenomenon and cites the 1974/75 recession as a major defeat to an independent upsurge in worker organization in the United States. But the official labor movement appears to have been doomed from the start, i.e. from the "sheer perdurance of the Gompersian legacy" (Davis, 1982, p. 43). Linked to a New Deal-constituted Democratic Party whose objective base was rapidly eroding, the AFL-CIO became embroiled the anti-communism of U.S. foreign policy, and in Nixon's New Economic Policy. As a result of its failure in political leadership, labor has since been marginalized to bodies like the Trilateral Commission. Such an institutionalized failure places all of the burden of resistance to the recomposition of capital in the hands of local unions, and such a burden is undoubtedly too great during periods of fundamental realignments of capital.

These historical components of the ruling bloc in the United States, which shift through the dynamic changes of economic structure (as well as through non-economically determined forces) are the concrete representations of the structural relations discussed in the previous section. Although there have been questions concerning the homogeneity of the ruling bloc, and its ability to act consciously,

Parboni argues:

For the hypothesis of a banking-industrial-government alliance to hold good, it is not necessary that all interests should be organized and satisfied, but only that coalitions of interests should prevail in each period and utilize the state apparatus to impose their own strategy. (Parboni, 1983, p. 91.)

The relationship between policy, economic experience, policy makers and the policy environment is an unfolding historical relationship structured, but not strictly determined, by the nature of the economic system. The state's economic powers come in direct lineage from its economic base, although it frequently requires deduction to explain those lineages. The next (final) chapter investigates the relationship between historical periodicity and the nature of the liberal state.

CHAPTER 9

BACK TO THE FUTURE: The Future of the Liberal State

Introduction

The state as macroeconomic manager in the United States has been successful in its own terms, although the prospects for continued success are linked ultimately to the prospects for the continued expansion of capital. Over a forty year period, a series of macroeconomic policy initiatives has served as an experiment in affecting the development of the U.S. economy and in altering the conjunctural relationship between labor and capital. What began ideologically with many liberal protestations toward growth and full-employment has progressed to a conservative orientation toward fiscal stability and productivity. However what has happened practically is that indirect means of government intervention in the tempo of capitalist reproduction have been accepted. The technical capabilities of the state in recognizing and acting on macroeconomic events have been developed extensively, and the nature of macroeconomic policy implementation has changed substantially.

These forty years have allowed an assessment of the political costs of alternative schemes of macroeconomic policy intervention. The conclusion must be that in times of economic crisis (which policy cannot prevent), monetary policy has become the "refuge center" for the ruling bloc. Other forms of macroeconomic intervention, particularly fiscal policy and wage - price controls, have proven much too visible and politically assailable. This shift from a fiscal to a monetary policy orientation has coincided with a centralization of policy-making control within the state, and an emphasis on those bodies of the state most accountable to multinational and finance capital. Although fiscal policy could be an effective means of macroeconomic intervention (effect in terms of amelioration and alteration, not in terms of prevention), it would take a substantial reorganization of state machinery to secure the same scope of discretion afforded monetary policy. As a result, pending a crisis in monetary politics, the Federal Reserve is likely to be the major source of macroeconomic policy in the United States for the foreseeable future.

This chapter considers the future development of macroeconomic policy formation in the United States within the context of forces affecting the nature of capitalistic reproduction and the form of the capitalist state. Phases in development of the U.S. economy following World War II are identified in the first part of this chapter. The processes by which the liberal state has developed, and its periodization, are the subject of the second part of this chapter. The chapter concludes with observations initiated in previous chapters.

Macroeconomic Policy Development in the U.S.

There have been numerous long-term events which characterize the post-World War II phase. The evidence shows that the long wave of economic expansion in the advanced capitalist world, which was ushered in with the allied victory, is not falling, although it has crested. The twenty years' expansion through 1968 described by Mandel (1975) has not been continued, but its average income levels have been sustained on a per capita basis in the United States. Similarly, the political and economic hegemony gained internationally by the United States has not been replaced, although alternative economic centers have been developed. In other words, the present continues to be an extension of the past, not a radical transformation of it.

The U.S. economy has become increasingly centralized, first through the fruits of mass production and consumption (Fordism), then through multinational incorporation, and finally through national and international consolidation of financial capital. Deregulation in the United States has played a facilitating role in this consolidation. Finally, the trajectory of the U.S. Federal government's economic weight (as measured by share of GNP) has mirrored the growth of the economy as a whole, with a recent flattening of that share. The trajectory of Federal expenditures, because of the allocative power of Congress (pork barrel politics), has not been as concentrated as the economy as a whole. However military expenditures have enhanced the relationship

between fiscal policy and the large capital sector. Finally, state and local government provide no specific macroeconomic weight despite their relatively great expenditure total.

More important on a governmental level has been the centralization of economic controls in the executive branch of the Federal government. The reliance on monetary policy, reserved to the non-public (but not non-political) Federal Reserve, represents a strategic decision facilitating the circulation of capital and aggregative control of the macroeconomy. Alternative forms of macroeconomic intervention, such as manipulation of the Federal budget deficit, stand-by tax authority, and industrial policy, have been marginalized, apparently for political, rather than technical (economic) reasons (Cf. Gold, 1977).

Parallel to the development of a centralized Federal government macroeconomic policy orientation has been the emphasis on decentralized responsibility for the public performance of the economy. This involves two aspects highlighted during the Reagan era, although each was initiated by earlier administrations. First, the systemic defense of capitalism as a social system in the absence of any sustained challenge diffuses the focus of responsibility for economic failure. This has occurred despite (or perhaps because of) the overall tendency for state intervention which Wolfe and others identified as a potentially politicizing macroeconomic event. Second, the centralization of Federal domestic policy functions (primarily through the expansion of White House power) increases the ability of the state as a manager to control

agendas, to make key point interventions, and to suppress challenges. These are highly political but are shielded from the public by the privileges of executive and partisan confidentiality. Although elements of a repressive strong state have not been emphasized under the Reagan presidency, they are also in place. This centralization of policy formation and implementation does not conflict with a decentralization of apparent responsibility because the locus of responsibility is so invisible.

Governmental decentralization of responsibility has been abetted by three trends in the economy: the neo-corporatism (submersion of union leaderships into the corporate culture) of labor unions, the deunionizing impact of structural shifts in the U.S. economy, and the internationalization of capital. The latter two augment powerfully the political weakness of labor in the current period. Collectively these trends re-emphasize the insufficiency of purely material conditions fomenting social reorganization. First, the living standards for the core labor force in the United States are still extraordinarily high in comparison to those in the Third world, although these higher incomes are not shielded effectively from the impact of transnationalized production through trade protectionism. Second, the political conditions of the labor class in the United States, including the structurally unemployed, are entirely subsumed by the labor leadership's material prerogatives (the bureaucratization of the unions and the professionalization of social work) and by the continued potency of democratic ideology.

The latter trend lies at the heart of the ideological defense of state policy. The vehemence with which the liberal strata of the power bloc attacked Nixon for Watergate and Reagan for Irangate was not because either President had centralized too much power in the White House (although there may have been an element to this), nor that these Presidents' policies were viewed as fatally flawed, but that the appearance of illegality in the development of national policy was a powerful threat to the perceived legitimacy of the democratic system. Thus flexibility of macroeconomic policy choice is at one level effectively constrained by the needs of the political system as a whole (i.e. legitimacy) just as it is constrained by economic reproduction.

The previous chapter presented the argument that in macroeconomic policy formation, the capitalist class rules, indirectly. It does so through its basic control over the material resources of society, and it does so by the material linkages between its system of production and the structures (relations) of the state. Interventionist macroeconomic policy, especially in its indirect monetary form, has increased that ability of capital to rule by reducing the focus for working class combativity, i.e. by removing macroeconomic policy from the political agenda. This laborist passivity has facilitated the internationalization of capital, although the latter effect of the latter may be to alter dramatically the ability of the U.S. state to

mediate between "national" and "international" points of view in the context of future world crises. All of this has occurred within the framework of liberal democracy, as discussed in the next section.

Liberal Processes of Policy Formation

The political processes of the post-World War II liberal state in the United States were integral to the development of an interventionist orientation toward macroeconomic policy formation and have supported the tendency of this policy to be increasingly removed from popular inspection.

Liberal democracy minimizes the cost of social control by decentralizing social and economic responsibilities. It also maximizes the benefits of legitimation of state policy through the practices and ideology of participation. Keynesian economic policy has similar attributes. It minimizes the cost of economic governance by transferring the costs of economic fluctuations and by deflating privatized class struggle at the point of production. It maximizes the benefits to private accumulation by reducing direct government involvement in production and it establishes a technocracy whose interests lie in maintaining the long-term hegemony of capital.

Some commentators have argued that the interventionist state has transferred what were workerist struggles at the point of production to class struggles at the point of the state. I believe this is an incorrect reading of the U.S. experience and corresponds not to

Keynesianism but to social democracy which was a much more explicit political program in the first place. The Keynesian project as interpreted in the United States, while shifting political responsibility from the workplace, does not inherently direct that emphasis to the power elite. This can be seen clearly by the 1974/75 stagflation experience when the scattered social protests which might have been generated by substantial unemployment were deflected and few substantive claims were made on the national government at all, or in post-1980 Britain where Thatcher's government has maintained its legitimacy despite a miserable economic record. Part of this is ideological obfuscation, but part is the ability of Keynesian economic policy to deflect class struggle materially.

If we examine the post-World War II record in the United States from the point of view of Presidencies, we see these processes more clearly.

Truman's immediate post-World War II economic project involved a shifting away from the New Deal although he maintained the political alliance with labor which was essential to the Democratic Party. Although the immediate post-war period involved a number of specific labor-capital conflicts, the overall tone was one of a return to normalcy, where normalcy might have been defined as pre-1929 America. In fact, however, the expanded size of the Federal government was already sufficiently large that an alliance of large capital oriented toward mass consumption with the ideological components of Keynesianism

was easy during the growth phase of post-World War II reconstruction. The forging of the "Keynesian coalition" was a relatively simple task (Cf. Gold, 1977).

The Eisenhower administration continued the Truman economic project, especially in dismantling New Deal pretensions, but it also represented a sufficiently laissez faire approach to economic instability that by the 1960 election both Kennedy and Nixon were involved in the Keynesian project. Industry in the United States was able to adjust following World War II better than many analysts had anticipated but was still subject to the politically dangerous (especially in the wake of the Great Depression) currents of the unadjusted business cycle. The Truman and Eisenhower administrations can be seen as a transitional phase in the corporatism of the U.S. economy, a phase in which the international political dominance of the United States was extremely important for the successes of capital.

Kennedy represented the symbolic genesis of the Keynesian project and a substantial extension of liberal democracy, especially as an ideology. The deficit financing project involved a liquidification of consumer buying power with particular benefit to the mass production and growth industries.

The Johnson administration faced the first substantial contradictions in the Keynesian project. These included the attempt to expand deficit financing as a liberal economic policy, expand domestic expenditures as a liberal social policy, and prosecute an increasingly

unpopular war without a full accounting of its direct (let alone indirect) costs. These conditions led to the income tax surcharge of 1968 and conflict with the Federal Reserve. The "political business cycle" broke as the economy failed to support Humphrey's candidacy.

The Nixon administration represented an extension of these contradictions and an example of the idiosyncrasies of politics. The New Economic Policy of 1971-74 (wage and price controls and alteration of international currency exchange procedures) represented the centralization of the Presidency under Johnson and Nixon. The controls were the hallmark of the most liberal of Democrats, John Kenneth Galbraith. However they did not serve the long-term needs of an economic system based on the price mechanism, and post-controls inflation indicated Nixon's reluctance to deal with the causes of expanding aggregate demand. This continued through the Ford and Carter administrations where the possibility of strong Presidential intervention in the economy, even in terms of restoring the independent power of individual corporations to discipline their workforces, was limited by the eroded authority of the political system. The 1974/75 recession marked the greatest potential threat to capital's hegemony in the United States, but it also revealed the extreme weakness of alternative politics.

The Carter and Reagan administrations are examples of the importance of the separation of powers in the liberal mode of the capitalist state. They also confirm Poulantzas' conception of the refuge state. The separation of powers and the possibility of a refuge

state contribute to the flexibility of U.S. capitalism. Both can be contrasted to the intractability and inflexibility of the British state under the Conservatives. With both Heath and Thatcher, politically maladroit attempts to break directly the power of labor (as opposed to easing its dissolution) led to national political crises. In Heath's case, it returned Labor to Downing Street while in Thatcher's case the overall costs of her frontal assault on labor and radical privatization of production have yet to be assessed. The British polity lacks the political economy escape valves provided by the separation of powers in the United States. It does have, however, in both the civil service and the semi-institutionalization of The City (its international finance sector), "refuge centers" which nearly or actually reach state power.

The Carter Presidency resulted in extremely weak economic leadership but a strengthening of centralized leadership bodies, e.g. the Office of Management and Budget. Carter also initiated an important step in the reconstitution of the conditions for expanded reproduction of surplus value through deregulation, a strategy which reduced the economic weight of decreasingly vibrant domestic companies and increased the freedom of movement for those able to move into a multinational, high-mobility world. The weakness of the Carter administration in macroeconomic policy was offset by the rising role of the Federal Reserve as the primary economic agent during a period of economic uncertainty which immobilized more popularly accountable

political bodies. The Federal Reserve was able to develop strongly deflationary monetary contractions without a strong popular reaction and despite the electoral needs of Carter.

Reagan's revolution in government policy continued the deregulatory trends of the Ford and Carter administrations and provided immediate relief to capital in the tax cut. Reagan's supply side rhetoric was an important attack on the objects of liberal Keynesianism, but the effect of the tax cuts was pragmatic deficit financing. The Federal Reserve's continued tight money policies, which had the true effect on inflation and probably offset the stimulatory effect of the tax cuts, were supported. (The tax cuts can probably be given substantial support for the pace of economic recovery leading up to the 1984 election.) The impact of Reagan's macroeconomic policy has been increased legitimacy for capitalism (and indirectly for laissez faire norms of productivity and finance) while at the same time encouraging an increasingly concentrated economic policy base. The current size of the budget deficit suggests that the Federal Reserve will be the refuge state for economic affairs for several years to come.

The Reagan Presidency has capitalized on the ideological crisis in U.S. society by hectoring classic American individualism as a front for deep inroads on labor's powers vis-a-vis the corporate sector. The depth of the Federal Reserve's monetary restraint, and the accompanying explosion of the Federal deficit, has allowed Reagan dramatic fiscal flexibility while at the same time shifting the burden of economic

stabilization onto the working class. The supply-side tax reform of 1981/82 made a substantial shift in the relationship between wage and dividend earners in the United States, but more importantly, perhaps, shifted the ideological climate toward defense of private enterprise.

The current ideological climate emphasizes private rights (i.e. school prayer and profits) and private responsibilities (i.e. child birth instead of abortion, poverty instead of welfare) which are coincident with corporate needs to expand the rate of surplus value (i.e. labor productivity). The refusal to serve protectionist interests corresponds to multinational capital's interests in the free movement of goods, which has increased pressure on workforces to accept "concessions" demanded of their unions by management. It also contributes to short-term alleviation of the budget crisis through the flow of international funds into the United States as drawn by the high interest rates which result from restrictive monetary policy.

The Reagan administration also has dramatically increased the centralization of government and increased its repressive capacity so that the avenues for dissent by those excluded from the economic recovery are also limited. In sum, the Reagan Presidency shows the power of macroeconomic policy in allowing short-term relief for the expanded reproduction of capital. The question is whether the relief will be sufficiently general and thorough as to allow an Eisenhower phase to follow Reagan or whether deeper social protest is likely once the costs of the relief package begin to have aggregate impacts.

The Reagan Presidency could have been identified as a fundamental historical period equivalent to the early New Deal period, but it has not progressed as deeply as might have been anticipated. Although not consolidated (a process which would require a continued deepening of the supply-side proposals in a Bush or Dole administration) nor yet a complete shift from Keynesian budgetary principles (an unlikely shift given the political usefulness of such deficits), the Reagan administration marks a new vigor on the part of advanced capital in the United States.

Block argues there is:

a modal process of social reform, where state managers extend their regulation ... when faced with pressures from subordinate groups or the threat of social disorganization. ... Once the reforms are institutionalized, they are used by state managers in ways that contribute to the accumulation process and to the maintenance of social control. (Block, 1980, p. 232).

In a period of conservative retrenchment, there is little reason to believe that ideologically disparate Presidents will not take advantage of the Reagan era's "progress" in macroeconomic management.

Possibilities of potential change in the form of the capitalist state might be aligned as shown in Figure 9.1 which scales potential outcomes along two axes, one of economic conditions and one of political organization. This diagram is constructed from ideas initiated in the teaching of Dolbeare and Edelman's American Politics (1979).

	Economic Stasis	Economic Degeneration
Political Stasis	Status quo Corporatism	Strong State Corporatism
Political Reorganization	Reformist Corporatism	Social Transformation/Reaction

Figure 9.1. Political economic determinants of social change

This diagram presents the argument that it will take either economic or political crisis to shift the nature of the U.S. state from one of "corporatism" (i.e. one in which the interests of labor are submerged in the state) to one in which either labor or capital takes a more direct role in governance. Although the recent Presidents have strengthened substantially the state's technical ability to respond to social crisis, political responses remain uncertain.

The future of the state in the United States does not appear to be dramatically different from the present unless crises cause a fundamental realignment of state powers. Gold argued that "macroeconomic policy was limited because it was unable to overcome barriers within the state and because it was unable to conform to changes in the

economy" (Gold, 1977, p. 157). Offe argued that "the reality of the capitalist state can thus best be described as the reality ... of an unrealistic attempt" (Offe, 1975, p. 144). Speaking with ten years hindsight, it is possible to say that these conclusions were premature. Despite the very precise analyses of both writers, and the likelihood that macroeconomic policy will again be in crisis, the reality is that the state structure in the United States (and elsewhere) was able to develop an organizational alternative, and support an ideological offensive in the case of the United States, which changed the form of state economic policy. As Holloway and Picciotto point out:

Attention has been focused ... on the need ... to restructure the state apparatus itself. ... The crisis has brought to light not only the limits of state activity, but equally the ability of the state to weather crisis.
(Holloway, 1978, p. 1.)

It is possible that the legitimation problems of the Presidency, as illustrated by Nixon and Watergate (and Reagan and Irangate) and by the weakness of the Ford and Carter presidencies, may lead to changes in the form of the presidency. These will undoubtedly affect the processes of macroeconomic policy formation and implementation. However the structure of production does not seem to suggest substantial changes in macroeconomic management, although the problems of the Federal debt and the over-extension of private credit may pose severe strains on the financial system, regionally, nationally, and internationally. This might cause a significant economic crisis but it is more likely to be limited to a dramatic restructuring of financial relationships. In this

the "independence" of the Federal Reserve as a "refuge center" of macroeconomic management provides the model for policy reformation, even if it is a reformation which reincorporates more refined use of fiscal policy.

Observations

The "capital logic" school of Marxist analysis has only been touched on in this dissertation despite its apparent relevance to the subject. This approach has a scholasticism and formality which makes its adaptation to concrete social analysis extremely tendentious. Yet there are many points of similarity between the perspective of this dissertation and the translation of the capital logic approach by Holloway and Picciotto. The point of the capital logic school was "to 'derive' the state as a political form from the nature of capitalist relations of production" (Holloway, 1978, p. 2). The German proponents of this viewpoint were especially critical of Poulantzas' failure to clarify the precise relation between the economic and political sphere, which they were to derive from the form of capital. They also believe Poulantzas' failure to make this linkage made it impossible to:

analyze the development of political forms ... [or] to analyze systematically the limitations imposed on the state by the relation of the state to the process of capital accumulation. (Holloway, 1978, p. 10.)

This indeed was the most difficult bridge in writing this dissertation, and it was a bridge built by Therborn and Giddens which made the crossing possible, not the logic of capital.

Although Holloway and Picciotto argue that there is no reason to counterpoise the logic of capital perspective to the class struggle or structuralist perspectives of Poulantzas, Miliband and Gramsci, it is ironic that the most relevant work on macroeconomic policy formation in the capital logic perspective speaks of "accumulation strategies" and "hegemonic projects" without attribution to the people involved in these activities (Cf. Jessop, 1983). One of the great advantages of Miliband, and Poulantzas in his concrete analysis, and to the ruling elite school of Mills and Domhoff, is that people populate these analyses.

The research for this dissertation began with discussions on the political significance of the approach taken by Poulantzas. However his ideas moved radically from Political Power and Social Classes, published in France in 1968, to State, Power, Socialism, published in France in 1978. Poulantzas over-emphasized the possibility of popular control of the capitalist state in his later work, and this can be derived from his over-emphasis (similar to Wright) on social class distinctions rather than on the structure of production. He failed to discover a social explanation of social agency when analyzing the state in action. It was the importance of beginning with the production and control of surplus value which differentiated Poulantzas from other

political analysts. Unfortunately he failed to carry this through into the issue of social transitions because he abandoned the base-superstructure concept as a primary, orienting determination. Poulantzas also failed to link the trajectory of the state as a social agent to semi-autonomous political behavior of dominant class fractions despite his excellent discussion of the refuge state.

The problem is that a politics divorced from the structure of capital does not explain the nature of this social system. Poulantzas failed in his later work, as opposed to slightly earlier work such as Classes in Contemporary Capitalism (published in France in 1974), to adequately differentiate the levels within the state (and not only within the apparatus, which is not cosubstantial with the state in its entirety) which are essential to the broader questions of class practices and class struggle.

Hall argues that State, Power, Socialism incorporates contradictory social relations into the state, "breaking the knot" on an adequate conception of the state (Hall, 1980, p. 67). Yet State, Power, Socialism was an unfinished conception, "a profoundly unsettled, and therefore unsettling, book ... no single consistent framework is wide enough to embrace its internal diversity" (Hall, 1980, p. 68). Although popular movements might legitimately look to the principles of liberal democracy as important achievements of capitalist society, the capitalist state is not bound by these achievements. The capitalist class does not "give up" control of key segments of state power just

because the exigencies of class struggle result in parts of the governmental apparatus being administered by labor or through community control. As long as the basic relations of production continue, the capitalist class maintains its primary determinate relationship with the state (or the refuge-state). Despite the importance of a heterogeneous political movement, political economy suggests that the threshold is reached at the relations of production. At the end, the Nicos Poulantzas who dominated debate on the state with his structuralism deeply rooted in economic relations was the same person who failed finally to link his politics to the dynamic of the economy and the historic relationship of labor to capital. This dissertation attempts to recover some of that territory.

Conclusion

Chapter 1 began with the observation that the Kennedy and Reagan periods contained macroeconomic similarities which provided a good frame of reference for policy analysis. Both Presidents followed the rhetoric of tax cuts, although Kennedy's were real and Reagan's were relative. Both periods involved dramatic increases in government intervention in the flow of income, in Kennedy's case through explicit use of deficit financing and in Reagan's case through presumably inadvertent explosion of the budget deficit. The Kennedy period was more propitious for macroeconomic adjustment because it was in the midst of a long wave of economic expansion. The Reagan period followed

ten years of economic stagnation which the de facto expansionary budget policy (the deficits) probably ameliorated with a "recovery" from the 1981-82 recession which continues through the end of 1987.

However, the major difference in these two periods is the movement of macroeconomic policy off the political agenda. It was the supply-side nature of Reagan's fiscal policy which received the public discussion, although it proved to be a "Trojan horse" for a hidden agenda which had little to do with macroeconomics. This reflects not just ideological differences but also a growing assessment that indirect forms of macroeconomic policy are preferable to direct forms. It marks the centralization of macroeconomic policy formation and it reduces its scope to the bodies of the state most directly linked to finance and multinational capital.

These differences are a part of a broad tightening of the state's macroeconomic policy interventions, and they mark some of the intractability of the state's inability to influence the fundamentals of economic growth and fluctuation. They also reflect the choices that have been made by leaders of advanced capital in the United States, and the ability of capital and the state to forestall significant protest from labor over fifteen years of reduced incomes and reduced expectations.

These relations of the state, and the structures of macroeconomic policy formation, are human. They involve an "architecture" of decisions and communication (Cf. Sah, 1986). These structures are not

constructed of individuals alone but of individuals in the social circumstance of decisions affecting the reproduction of capital. There is a basic "logic" to capital, but it is not a deterministic logic.

Macroeconomic policy formation involves the direct linkage of individuals and bureaucratic places with centers of capital, but it also involves direct linkage to political leadership. The power bloc is a multi-faceted structure. The state is similarly structured and in this period of macroeconomic stagnation, the "refuge center" has increasingly taken over the legitimacy of macroeconomic policy formation. Future economic crises will have to deal with the institutionalization of this center, and a new alternative center of macroeconomic policy formation and implementation will have to be developed. It is possible that bodies of international coordination will take on this role.

This dissertation was written on the premise that macroeconomic policy mattered to ordinary human beings and that standard macroeconomic and political theory said little about that mattering. The structuralism of Poulantzas seemed to provide a comprehensive framework for social explanation. From this framework comes the idea of a "refuge center" whose application to the post-World War II macroeconomic experience was the exclusive reliance on monetary policy in the late 1970s and 1980s. The explanation of this idea became the key task of this dissertation. It does not provide direct political knowledge but it provides clues to an assessment of contemporary

political conditions. To the extent that these clues can now be drawn together in a better manner, then this dissertation has been successful.

BIBLIOGRAPHY

- Abercrombie, Nicholas, Hill, Stephen, and Turner, Bryan S. 1980.
The Dominant Ideology Thesis. London: George Allen & Unwin.
- Aglietta, Michel. 1978.
"Phases of U.S. capitalist expansion," New Left Review 110, p. 17.
- _____. 1979.
A Theory of Capitalist Regulation. France, 1976; London: New Left Books.
- _____. 1982.
"World capitalism in the eighties," New Left Review 136, p. 5.
- _____. 1985.
"The Creation of International Liquidity," in Tsoukalis, Loukes. (ed.). The Political Economy of International Money, p. 171.
- Ahmad, Aijaz. 1983.
"Imperialism and progress," in Chilcote, Ronald H. and Johnson, Dale L. (ed.), Theories of Development, Beverley Hills, CA: Sage Publications, p. 33.
- Alexander, Charles C. 1975.
Holding the Line, the Eisenhower Era. Bloomington, IL: Indiana University Press.
- Almond, Gabriel A. 1967.
"Review of Social Origins.... by Barrington Moore, Jr.," American Political Science Review, Vol 61:3, p. 768.
- Alpert, Irvine and Markusen, Ann. 1980.
"Think tanks and capitalist policy," in Domhoff, G. William. (ed.). Power Structure Research, p. 173.
- Alt, James E. 1985.
"Political parties, world demand and unemployment," American Political Science Review, Vol 79:4, p. 1016.

- _____. 1986.
The Politics of Economic Decline: Economic Management and Political Behavior in Britain since 1964. London: Cambridge University Press.
- Alt, James and Chrystal, Alec. 1981.
"Politico-economic models of British fiscal policy," in Hibbs, Douglas A. Jr. and Fassbender, Heino. (eds.). Contemporary Political Economy: Studies on the Interdependence of Politics and Economics, p. 185.
- American Economic Association. 1986.
"Supply-side economics: what remains?" American Economic Review, Vol 76:2, p. 26.
- Ando, Albert, et. al. (eds.). 1968.
Studies in Economic Stabilization. Washington, D.C.: Brookings Institution.
- Attewell, Paul A. 1984.
Radical Political Economy since the Sixties. New Brunswick, NJ: Rutgers University Press.
- Auberbach, Alan J. 1982.
"The index of leading indicators: 'measurement without theory,' thirty-five years later," Review of Economics and Statistics, Vol 64:4, p. 589.
- Bach, George Leland. 1971.
Making Monetary and Fiscal Policy. Washington, D.C.: Brookings Institution.
- Badaracco, Joseph L. Jr. and Yoffie, David B. 1983.
"'Industrial Policy': It can't happen here," Harvard Business Review, Vol 83:6, p. 97.
- Bailey, Stephen Kemp. 1950.
Congress Makes a Law: The Story Behind the Employment Act of 1946. New York: Columbia University Press.
- Baily, M.N. 1978.
"Stabilization policy and private economic behavior," Brookings Papers on Economic Activity 1, p. 11.
- Baran, Paul and Sweezy, Paul. 1966.
Monopoly Capital. New York: Monthly Review Press.

- Barth, James R., George R. Iden, and Frank S. Russek. 1986.
 "The economic consequences of Federal deficits: an examination of the net wealth and instability issues," Southern Economic Journal, Vol 53:1, p. 27.
- Baudrillard, Jean. 1975.
The Mirror of Production. St. Louis: Telos Press.
- _____. 1981.
For a Political Economy of the Sign. St. Louis: Telos Press.
- Beckhart, Benjamin Haggott. 1972.
Federal Reserve System. American Banking Association.
- Best, Michael H. and Connolly, William E. 1976.
The Politicized Economy. Lexington, MA: Heath.
- Blinder, Alan S. and Goldfeld, Stephen M. 1976.
 "New measures of fiscal and monetary policy, 1958-1973," American Economic Review, Vol 66:5, p. 780.
- Blinder, Alan S. and Solow, Robert M. 1973.
 "Does fiscal policy matter?" Journal of Public Economics, Vol 2:4, p. 319.
- _____. 1976.
 "Does fiscal policy still matter? A reply," Journal of Monetary Economics 2, p. 501.
- Block, Fred. 1977.
 "The ruling class does not rule," Socialist Revolution 33, p. 6.
- _____. 1980.
 "Beyond relative autonomy: state managers as historical subjects," in Miliband, Ralph and Saville, John (eds.). Socialist Register, 1980. London: Merlin Press, p. 227.
- _____. 1980.
 "Trilateralism and inter-capitalist conflict," in Sklar, Holly. (ed.). Trilateralism: The Trilateral Commission and Elite Planning for World Management, p. 519.
- Block, Fred and Hirschhorn, Larry. 1979.
 "New production forces and the contradictions of contemporary capitalism: A post-industrial perspective," Theory and Society, Vol 7:3, p. 363.

- Bluestone, Barry and Harrison, Bennett. 1982.
The Deindustrialization of America. New York: Basic Books.
- Bober, Stanley. 1968.
The Economics of Cycles and Growth. New York: John Wiley and Sons.
- Boddy, R. and Crotty, J. 1975.
 "Class conflict and macro-policy: the political business cycle," Review of Radical Political Economy, Vol 7:1, p. 1.
- Bowles, Samuel and Gintis, Herbert. 1982.
 "The crisis of liberal democratic capitalism: the case of the United States," Politics and Society, Vol 11:1, p. 51.
- Bowles, Samuel, Gordon, David M., and Weisskopf, Thomas E. 1983.
Beyond the Wasteland. Garden City, NY: Anchor Press.
- _____. 1986.
 "Power and profits: the social structure of accumulation and the profitability of the postwar U.S. economy," Review of Radical Political Economy, Vol 18:1, p. 132.
- Brenner, Robert. 1977.
 "The origins of capitalist development: a critique of neo-Smithian Marxism," New Left Review 104, p. 25.
- Brett, E.A. 1983.
International Money and Capitalist Crisis: The Anatomy of Global Disintegration. London: Heineman.
- Brooks, John. 1982.
 "Annals of Finance: the Supply Side", New Yorker, (April 19), p. 96.
- Brown, E. Cary. 1960.
 "Federal fiscal policy in the postwar period," in Freeman, Ralph E. (ed.). Postwar Economic Trends in the United States, p. 139.
- Brownlee, W. Elliot. 1979.
Dynamics of Ascent. New York: Alfred A. Knopf.
- Bryant, Ralph C. 1983.
Controlling Money: The Federal Reserve and its Critics. Washington, D.C.: Brookings Institution.
- Buchanan, James M. 1977.
Freedom in Constitutional Contract. College Station, TX: Texas A & M University Press.

- Buchanan, James M. and Tullock, Gordon. 1962.
The Calculus of Consent. Ann Arbor, MI: University of Michigan Press.
- Buchanan, James M. and Wagner, Richard E. (eds.). 1978.
Fiscal Responsibility in Constitutional Democracy. Leiden: Stenfort Kroese.
- Cagan, Phillip 1972.
 "Monetary policy," in Fellner, William J. (ed.), Economic Policy and Inflation in the Sixties. p. 89.
- Cameron, David R. 1981.
 "On the limits of the public economy," American Political Science Association, Annual Meeting, manuscript.
- Campen, James T. and MacEwan, Arthur. 1982.
 "Crisis, contradictions, and conservative controversies in contemporary U.S. capitalism," Review of Radical Political Economy, Vol 14:3, p. 1.
- Camps, Miriam. 1981.
Collective Management: Reform of Global Economic Organization. New York: McGraw-Hill.
- Camps, Miriam and Gwin, Catherine. 1982.
 "Trilateralism and the governance of the international economy in the 1980s," Trilateral Papers 23, p.1.
- Carnoy, Martin. 1984.
The State and Political Theory. Princeton, NJ: Princeton University Press.
- Castells, Manuel. 1980.
The Economic Crisis and American Society. Princeton, NJ: Princeton University Press.
- Clement, M.O., Pfister, Richard L., and Rothwell, Kenneth J. 1966.
Theoretical Issues in International Economics. Boston: Houghton Mifflin.
- Collins, Robert M. 1981.
The Business Response to Keynes, 1929-1964. New York: Columbia University Press.
- Committee for Economic Development. 1979.
Redefining Government's Role in the Market System. Washington, D.C.: Committee for Economic Development.

- Cooter, Robert and Rappoport, Peter. 1984.
 "Were the ordinalists wrong about welfare economics?" Journal of Economic Literature, Vol 22:2, p. 507.
- Crawford, Alan. 1980.
Thunder on the Right. New York: Pantheon Books.
- Cronin, James E. 1980.
 "Stages, cycles and insurgencies: the economics of unrest," in Hopkins, Terence K. and Wallerstein, Immanuel. (eds.), Processes of the World-System,
- Crouch, Colin. (ed.). 1979.
State and Economy in Contemporary Capitalism. New York: St. Martin's Press.
- Dahl, Robert A. 1961.
Who Governs? New Haven, CN: Yale University Pres.
- _____. 1983.
 "Communications," American Political Science Review, Vol 77:2, p. 386.
- Dahl, Robert A. and Lindblom, Charles E. 1983.
Politics, Economics and Welfare. Chicago: University of Chicago Press.
- Davidson, Lawrence S. and Hafner, R.W. 1983.
 "Some evidence on selecting an intermediate target for monetary policy," Southern Economic Journal, Vol 50:2, p. 406.
- Davidson, Paul. 1982.
International Money and the Real World. London: Wiley.
- Davis, Mike. 1980.
 "The barren marriage of American labour and the Democratic Party," New Left Review 124, p.43.
- _____. 1982.
 "The AFL-CIO's second century," New Left Review 136, p.43.
- _____. 1984.
 "The political economy of late-imperial America," New Left Review 143, p.6.
- _____. 1985.
 "Reaganomics' magical mystery tour," New Left Review 149, p. 45.

- _____. 1986.
 "The lesser evil? The Left and the Democratic Party," New Left Review 155, p. 5.
- Day, Richard B. 1976.
 "The theory of the long cycle: Kondratiev, Trotsky, Mandel," New Left Review 99, p. 67.
- Day, Richard H. 1982.
 "Irregular growth cycles," American Economic Review, Vol 72:3, p. 406.
- Delong, J. Bradford and Summers, Lawrence. 1984.
 "The changing cyclical variability of economic activity in the United States," National Bureau for Economic Research Working Paper 1450.
- Devine, James N. 1986.
 "Empirical studies in Marxian crisis theory: Introduction," Review of Radical Political Economy, Vol 18:1, p. 1.
- Dolbeare, Kenneth M. 1974.
Political Change in the United States: A Framework for Analysis. New York: McGraw-Hill.
- Dolbeare, Kenneth M. and Edelman, Murray J. 1979.
American Politics. Lexington, MA: D.C. Heath.
- Domhoff, G. William. 1967.
Who Rules America? Englewood Cliffs, NJ: Prentice-Hall.
- _____. 1970.
The Higher Circles: The Governing Class in America. New York: Vintage Books.
- _____. 1979.
The Powers that Be: Processes of Ruling Class Domination in America New York: Vintage Books.
- _____. (ed.). 1980.
Power Structure Research. Beverly Hills, CA: Sage Publications.
- Downs, Anthony. 1957.
An Economic Theory of Democracy. New York: Harper.
- Doyal, Len and Harris, Roger. 1983.
 "The practical foundations of human understanding," New Left Review 139, p. 59.

- Drucker, Peter F. 1986.
"The changing world economy," Foreign Affairs, Vol 64:2, p. 768.
- Dye, Thomas R. 1979.
Who's Running America: The Carter Years. New Jersey: Prentice Hall.
- Easton, David. 1981.
"The political system besieged by the state," Political Theory, Vol 9:3, p. 303.
- Eckstein, Otto. 1978.
The Great Recession. New York: North-Holland Publishing.
- _____. 1983.
The DRI Model of the U.S. Economy. New York: McGraw-Hill.
- Edelman, Murray. 1967.
The Symbolic Uses of Politics. Urbana, IL: University of Illinois Press.
- Eichner, Alfred S. (ed.). 1979.
A Guide to Post-Keynesian Economics. White Plains, NY: M.E. Sharpe.
- Eisenhower, Dwight D. 1960.
Public Papers of the Presidents: Dwight D. Eisenhower. Washington, D.C.: U.S. Government Printing Office.
- Eisner, Robert. 1986.
"Debt and deficits: cure, or blessing in disguise?" Arts & Sciences, (Spring), Northwestern University, p. 16.
- _____. 1986.
How Real is the Federal Deficit? New York: Collier MacMillan.
- Eklund, Klas. 1980.
"Long waves in the development of capitalism?" Kyklos, Vol 33:3, p. 383.
- Epstein, Gerald. 1981.
"Domestic stagflation and monetary policy: the Federal Reserve and the hidden election," in Ferguson, Thomas and Rogers, Joel. (eds.), The Hidden Election, p. 141.
- Epstein, Gerald and Ferguson, Thomas. 1985.
"Monetary policy, loan liquidation, and industrial conflict: the Federal Reserve and open market operations," Journal of Economic History, Vol 44:4, p. 957.

- Erb, Richard D. (ed.). 1978.
Federal Reserve Policies and Public Disclosure. Washington, D.C.: American Enterprise Institute.
- Evans, Paul. 1983.
 "The effects on output of money growth and interest rate volatility in the United States," Journal of Political Economy, Vol 92:2, p. 204.
- Feiwel, George R. (ed.). 1982.
Samuelson and Neoclassical Economics. Boston: Kluwer Nijhoff.
- Feldstein, Martin. 1986.
 "Supply side economics: old truths and new claims," American Economic Review, Vol 76:2, p. 26.
- Feldstein, Martin and Summers, Lawrence. 1977.
 "Is there a falling rate of profit?" Brookings Papers on Economic Activity 1, p. 228.
- Fellner, William J. (ed.). 1972.
Economic Policy and Inflation in the Sixties. Washington, D.C.: American Enterprise Institute.
- Ferguson, Thomas and Rogers, Joel. (eds.). 1981.
The Hidden Election. New York: Pantheon Books.
- Flash, Edward S. Jr. 1965.
Economic Advice and Presidential Leadership. (New York: Columbia University Press.
- Freeman, Ralph E. (ed.). 1960.
Postwar Economic Trends in the United States. New York: Harper & Brothers.
- _____. 1960.
 "Postwar monetary policy," in Freeman, Ralph E. (ed.). Postwar Economic Trends in the United States, p. 51.
- Frenkel, Jacob A. and Razin, Assaf. 1985.
 "The international transmission and effects of fiscal policies," American Economic Association Annual Meeting, manuscript.
- Frey, Bruno. 1978.
Modern Political Economy. New York: John Wiley and Sons.

- Frey, Bruno S. and Schneider, Friedrich. 1982.
 "Politico-economic models in competition with alternative models: which predict better?" European Journal of Political Research 10, p. 241.
- Frieden, Jeff. 1982.
 "Review -- 'The Dollar and Its Rivals'," New Left Review 135, p. 91.
- Friedman, Milton. 1953.
Essays in Positive Economics. Chicago: University of Chicago Press.
- _____. 1959.
The Demand for Money. New York: National Bureau of Economic Research.
- _____. 1968.
 "The role of monetary policy," American Economic Review, Vol 58:1, p. 1.
- _____. 1969.
 "Free-market determination of exchange rates," in Officer, Lawrence H. and Willett, Thomas D. The International Monetary System, p. 191.
- _____. 1969.
The Optimum Quantity of Money and Other Essays. Chicago: Aldine Publishing.
- _____. 1977.
 "Nobel Lecture: Inflation and Unemployment," Journal of Political Economy, Vol 85:3, p. 451.
- _____. 1982.
 "Defining 'Monetarism'," Newsweek, (July 12), p. 64.
- Friedman, Milton and Schwartz, Anna J. 1982.
Monetary Trends in the United States and the United Kingdom. Chicago, IL: University of Chicago Press.
- Furstenberg, George M. von and Green, R. Jeffrey. 1986.
 "Supply-side modeling from bits and pieces," American Economic Review, Vol 76:2, p. 37.
- Galbraith, John Kenneth. 1954.
The Great Crash, 1929. Harmondsworth, England: Pelican Books.

- _____. 1973.
Economics and the Public Purpose. London: Deutsch.
- _____. 1975.
Money: Whence It Came, Where It Went. Boston: Houghton Mifflin.
- Giddens, Anthony. 1976.
New Rules of Sociological Method: A Positive Critique of Interpretative Sociologies. New York: Basic Books.
- _____. 1979.
Central Problems in Social Theory. Berkeley: University of California Press.
- _____. 1981.
A Contemporary Critique of Historical Materialism. Berkeley, CA: University of California Press).
- _____. 1984.
The Constitution of Society: Outline of the Theory of Structuration. Berkeley, CA: University of California Press.
- Glombowski, Jorg. 1982.
"A comment on Sherman's Marxist cycle model," Review of Radical Political Economy, Vol 14:1, p. 42.
- Glyn, Andrew and Sutcliffe, Robert. 1972.
British Capitalism, Workers, and the Profit Squeeze. London: Penguin Books.
- Gold, David A. 1977.
"The rise and decline of the Keynesian coalition," Kapitalistate 6, p. 129.
- Gold, David, Lo, Clarence and Wright, E.O. 1975.
"Some recent developments in Marxist theories of the State," Monthly Review, Vol 27:5-6.
- Golden, David G. and Poterba, James M. 1980.
"The price of popularity: the political business cycle reexamined," American Journal of Political Science. (November), p. 696.
- Gordon, David M. 1980.
"Stages of accumulation and long economic cycles," in Hopkins, Terence K. and Wallerstein, Immanuel. (eds.), Processes of the World-System, p. 9.

- Gordon, Robert Aaron. 1974.
Economic Instability and Growth. New York: Harper & Row.
- Gordon, Robert J. and Pelkmans, Jacques. (eds.). 1979.
Challenges to Interdependent Economies: The Industrial West in the Coming Decade. New York: McGraw-Hill.
- Gough, Ian. 1975.
 "State expenditure in advanced capitalism," New Left Review 92, p. 53.
- Grieder, William. 1981.
 "The education of David Stockman," Atlantic Monthly, (December), p. 27.
- Habermas, Jurgen. 1975.
Legitimation Crisis. Boston: Beacon Press.
- _____. 1979.
 "Conservatism and capitalist crisis," New Left Review 115, p. 73.
- Hahnel, Robin and Sherman, Howard. 1982.
 "The rate of profit over the business cycle," Cambridge Journal of Economics 6, p. 185.
- Hall, Stuart. 1980.
 "Nicos Poulantzas: State, Power, Socialism," New Left Review 119, p. 60.
- _____. 1985.
 "Authoritarian populism: a reply to Jessop, et. al." New Left Review 151, p. 115.
- Harrilesky, Thomas M., Sapp, Robert and Schweitzer, Robert. 1975.
 "Tests of the Federal Reserve's reaction to the state of the economy," Social Science Quarterly, (March), p. 835.
- Harris, Seymour E. 1964.
Economics of the Kennedy Years. New York: Harper & Row.
- Heath, Jim F. 1969.
John F Kennedy and the Business Community. Chicago: University of Chicago Press.
- Held, David, et al. 1983.
States and Societies. New York: New York University Press.

- Heller, Walter W. 1966.
New Dimensions of Political Economy. Cambridge, MA: Harvard University Press.
- Hibbs, Douglas A. Jr. 1977.
 "Political parties and macroeconomic policy," American Political Science Review, Vol 71:4, p. 1467.
- Hibbs, Douglas A. Jr. and Fassbender, Heino. (eds.). 1981.
Contemporary Political Economy: Studies on the Interdependence of Politics and Economics. New York: North-Holland Publishing.
- Hodgman, Donald R. (ed.). 1983.
The Political Economy of Monetary Policy: National and International Aspects. Federal Reserve Bank of Boston, Conference Series 26.
- Holloway, John and Picciotto, Sol. (eds.). 1978.
State and Capital. A Marxist Debate. Austin, TX: University of Texas Press.
- _____. 1978.
 "Introduction: towards a materialist theory of the state," in Holloway, John and Picciotto, Sol. (eds.), State and Capital. A Marxist Debate, p. 1.
- Holloway, Thomas M. 1984.
 "The economy and the federal budget: guides to automatic effects," Survey of Current Business, Vol 64:7, p. 102.
- _____. 1986.
 "The cyclically adjusted federal budget and federal debt: revised and updated estimates," Survey of Current Business, Vol 66:3, p.11.
- Holloway, Thomas. M. and Wakefield, Joseph C. 1985.
 "Sources of changes in the federal government deficit, 1970-86," Survey of Current Business, Vol 65:5, p. 25.
- Holmans, A.E. 1961.
United States Fiscal Policy: 1945-59. London: Oxford University Press.
- Hoover, Kevin D. 1984.
 "Two types of monetarism," Journal of Economic Literature, Vol 22:1, p. 58.

- Hopkins, Terence K. and Wallerstein, Immanuel. (eds.). 1980.
Processes of the World-System. Beverly Hills, CA: Sage Publications.
- _____. 1982.
World-Systems Analysis: Theory and Methodology. Beverly Hills, CA: Sage Publications.
- Hulten, Charles R. 1984.
 "Tax policy and the investment decision," American Economic Review, Vol 74:2, p. 236.
- Hulten, Charles R. and Sawhill, Isabel V. 1984.
The Legacy of Reaganomics: Prospects for Long-Term Growth. Washington, D.C.: Urban Institute Press.
- Hunt, E. K. and Schwartz, Jessie G. 1972.
A Critique of Economic Theory. Harmondsworth, England: Penguin.
- Jessop, Bob. 1982.
The Capitalist State. New York: New York University Press.
- _____. 1983.
 "Accumulation strategies, state forms, and hegemonic projects," Kapitalistate 10, p. 89.
- Jessop, Bob, et al. (eds.). 1984.
 "Authoritarian populism, two nations and Thatcherism," New Left Review 147, p. 32.
- _____. 1985.
 "Thatcherism and the politics of hegemony: a reply to Stuart Hall," New Left Review 153, p. 87.
- Jezer, Marty. 1982.
The Dark Ages: Life in the U.S. 1945-60. Boston: South End Press.
- Johnson, Lyndon B. 1963, 1964, 1965, 1966.
Public Papers of the Presidents: Lyndon B. Johnson. Washington, D.C.: U.S. Government Printing Office.
- Katznelson, Ira. 1978.
 "Considerations on social democracy in the United States," Comparative Politics, Vol 11:1, p. 77.

- _____. 1981.
"A radical departure? Social welfare and the election," in
Ferguson, Thomas and Rogers, Joel. (eds.), The Hidden
Election, p. 313.
- Keman, Hans and Lehner, Franz. 1984.
"Economic crisis and political management," European Journal
of Political Research 12, p. 121.
- Kennedy, John F. 1961, 1962, 1963.
Public Papers of the Presidents: John F. Kennedy. Washington,
D.C.: U.S. Government Printing Office.
- Kesselman, M. 1983.
"From state theory to class struggle and compromise," Social
Science Quarterly, Vol 64:4, p. 826.
- Keynes, John Maynard. 1935.
The General Theory of Employment, Interest and Money. New
York: Harcourt Brace Jovanovich.
- Kidron, Michael. 1968.
Western Capitalism Since the War. London: Weidenfeld and
Nicolson.
- Klein, Philip A. 1983.
"The neglected institutionalism of Wesley Clair Mitchell: the
theoretical basis for business cycle indicators," Journal of
Economic Issues, Vol 17:4, p. 867.
- Kolko, Gabriel. 1976.
Main Currents in Modern American History. New York: Harper &
Row.
- Kondratieff, N. D. 1935.
"The long waves in economic life," Review of Economic
Statistics, Vol 17:6, p. 105.
- Kuznets, Simon. 1977.
"Two centuries of economic growth," American Economic Review,
Vol 67:1, p. 1.
- Laclau, Ernesto. 1979.
Politics and Ideology in Marxist Theory. London: Verso
Editions.
- Lee, Susan Previant and Passel, Peter. 1979.
A New Economic View of American History. New York: W.W.Norton.

- Leijonhufvud, Axel. 1968.
On Keynesian Economics and the Economics of Keynes. London:
 Oxford University Press.
- Leinsdorf, David and Etra, Donald. 1973.
Citibank. New York: Grossman Publishers.
- Leone, Robert A. and Bradley, Stephen P. 1981.
 "Toward an effective industrial policy," Harvard Business Review, Vol 59:6, p. 91.
- Levy, Michael E. 1963.
Fiscal Policy, Cycles & Growth. New York: National Industrial
 Conference Board.
- Lewis, Wilfred Jr. 1962.
Federal Fiscal Policy in the Postwar Recessions. Washington,
 D.C.: Brookings Institution.
- Leys, Colin. 1985.
 "Thatcherism and British manufacturing: a question of
 hegemony," New Left Review 151, p. 5.
- Lindblom, Charles E. 1977.
Politics and Markets: The World's Political-Economic Systems.
 New York: Basic Books.
- _____. 1983.
 "Communications," American Political Science Review, Vol 77:2,
 p. 384.
- Livingston, Ken. 1983.
 "Monetarism in London," New Left Review 137, p. 68.
- Llewellyn, David T. 1985.
 "The Role of International Banking," in Tsoukalis, Loukes.
 (ed.). The Political Economy of International Money, p. 203.
- Lowi, Theodore J. 1969.
The End of Liberalism. New York: W.W. Norton.
- Lucas, Robert E. Jr. 1981.
Studies in Business-Cycle Theory. Cambridge, MA: MIT
 Press.
- MacBean, A.I. and Snowden, P.N. 1981.
International Institutions in Trade and Finance. London:
 George Allen and Unwin.

- MacEwan, Arthur. 1984.
 "Interdependence and instability," Review of Radical Political Economy, Vol 16:2, p. 57.
- MacRae, C. Duncan. 1977.
 "A political model of the business cycle," Journal of Political Economy, Vol 85:2, p. 239.
- _____. 1981.
 "On the political business cycle," in Hibbs, Douglas A. Jr. and Fassbender, Heino. (eds.). Contemporary Political Economy: Studies on the Interdependence of Politics and Economics, p. 169.
- Mandel, Ernest. 1970.
Europe vs America. London: New Left Books.
- _____. 1975.
 "The generalized recession of the international capitalist economy," Inprecor 16, p.3.
- _____. 1975.
Late Capitalism. Brussels, 1972; London: New Left Books.
- _____. 1975.
 "The recession and the prospects for the international capitalist economy," Inprecor 27, p.3.
- _____. 1976.
 "Introduction," in Marx Capital, (Vol 1). New York: Penguin Books.
- _____. 1978.
 "Introduction," in Marx Capital, (Vol 2). New York: Penguin Books.
- _____. 1978.
Long Waves of Capitalist Development. Cambridge: Cambridge University Press.
- _____. 1978.
The Second Slump. Berlin 1977, London: New Left Books, 1978.
- _____. 1981.
 "Introduction," in Marx Capital, (Vol 3). New York: Penguin Books.

- Manicas, Peter T. 1985.
 "Explanation, generalisation, and marxist theory vis-a-vis third world development," p. 309, in D. Banerjee (ed.). Marxist Thought in the Third World. New Delhi: Sage Publishing.
- Manley, John F. 1983.
 "Neo-pluralism," American Political Science Review, Vol 77:2, p. 368.
- Marx, Karl and Engels, Frederick. 1970.
The German Ideology. (1846). (ed.) C. J. Arthur. London: Lawrence & Wishart.
- Mass, Nathaniel J. 1975.
Economic Cycles. Cambridge, MA: Wright-Allen Press.
- Mattick, Paul. 1969.
Marx and Keynes: the Limits of the Mixed Economy. Boston: P. Sargent.
- _____. 1981.
Economic Crisis and Crisis Theory. White Plains, NY: M.E. Sharpe.
- Mayer, Thomas. 1982.
 "A Case Study of Federal Reserve Policymaking: Regulation Q in 1966," Journal of Monetary Economics, Vol 10:2, p. 259.
- _____. 1982.
 "Monetary Trends in the United States and the United Kingdom: A review article," Journal of Economic Literature, Vol 20:4, p. 1528.
- Mayhew, Ann. 1983.
 "Ideology and the Great Depression: monetary history rewritten," Journal of Economic Issues, Vol 17:2, p. 353.
- McClure, Charles E. 1972.
 "Fiscal failure: lessons of the sixties," in Fellner, William J. (ed.), Economic Policy and Inflation in the Sixties, p. 7.
- McConnell, Grant. 1966.
Private Power and American Democracy. New York: Alfred A. Knopf.
- McKinnon, Ronald I. 1981.
 "The exchange rate and macroeconomic policy: changing postwar perceptions," Journal of Economic Literature, Vol 19:2, p. 531.

- McQuaid, Kim. 1982.
Big Business and Presidential Power: from FDR to Reagan. New York: William Morrow.
- Melton, William C. 1985.
Inside the Fed. Homewood, IL: Dow Jones-Irwin.
- Mennis, Bernard and Sauvant, Karl P. 1976.
Emerging Forms of Transnational Community. Lexington, MA: Lexington Books.
- Miliband, Ralph. 1969.
The State in Capitalist Society. London: Weidenfeld & Nicholson.
- _____. 1973.
 "Poulantzas and the capitalist state," New Left Review 82, p. 83.
- _____. 1983.
Class Power and State Power. London: Verso.
- _____. 1983.
 "State power and class interests," New Left Review 138, p. 57.
- Mills, C. Wright. 1965.
The Power Elite. New York: Oxford University Press.
- Minarik, Joseph J. 1978.
 "Who Wins, Who Loses From Inflation?" Brookings Bulletin, Vol 15:1. p. 6.
- Mintz, Beth and Schwartz, Michael. 1985.
The Power Structure of American Business. Chicago: University of Chicago Press.
- Mitchell, Wesley Clair. 1941.
Business Cycles and Their Causes. Berkeley, University of California Press.
- Modigliani, Franco. 1977.
 "The monetarist controversy or, should we foresake stabilization policies," American Economic Review, Vol 67:2, p. 1.
- Moore, Barrington Jr. 1958.
Political Power & Social Theory. Cambridge, MA: Harvard University Press.

- _____. 1966.
Social Origins of Dictatorship and Democracy. Boston: Beacon Press.
- Moore, Geoffrey H. (ed.). 1961.
Business Cycle Indicators, Vol 1. Princeton, NJ: Princeton University Press.
- _____. 1980.
Business Cycles, Inflation, and Forecasting. Cambridge, MA: NBER.
- Morse, Edward L. and Wallin, Thomas. 1979.
 "Introduction: Demand management and economic nationalism in the coming decade," in Gordon, Robert J. and Pelkmans, Jacques. (eds.), Challenges to Interdependent Economies: The Industrial West in the Coming Decade, p. 1.
- Nairn, Tom. 1981.
 "Great Britain: A legitimation crisis?" New Left Review 130, p. 37.
- Neal, Alfred C. 1981.
Business Power and Public Policy. New York: Praeger.
- Nelson, Robert H. 1987.
 "The economics profession and the making of public policy," Journal of Economic Literature, Vol 25, p. 49.
- Newton, Maxwell. 1983.
The Fed: Inside the Federal Reserve. New York: Times Books.
- Nordhaus, William D. 1974.
 "The falling share of profits," Brookings Papers on Economic Activity 1, p. 169.
- _____. 1975.
 "The political business cycle," Review of Economic Studies, Vol 62:2, p. 169.
- _____. 1982.
 "Economic policy in the face of declining productivity growth," European Economic Review, Vol 18:1, p. 131.
- _____. 1983.
 "Macroconfusion: the dilemmas of economic policy," in Tobin, James (ed.), Macroeconomics, Prices and Quantities, Washington, D.C.: Brookings Institution, p. 247.

- Norton, Hugh S. 1977.
The Employment Act and the Council of Economic Advisers, 1964-1976. Columbia, SC: University of South Carolina Press.
- Norton, R.D. 1986.
 "Industrial policy and American renewal," Journal of Economic Literature, Vol 24:1, p. 1.
- O'Connor, James. 1973.
The Fiscal Crisis of the State. New York: St. Martin's Press.
- _____. 1974.
The Corporations and the State. New York: Harper & Row.
- _____. 1984.
Accumulation Crisis. New York: Basil Blackwell.
- Odell, John S. 1982.
U.S. International Monetary Policy. Princeton NJ: Princeton University Press.
- Offe, Claus. 1975.
 "The theory of the capitalist state and the problems of policy formation," in Leon N. Lindberg, et al. (eds.) Stress and Contradiction in Modern Capitalism. Lexington, MA: Lexington Books, p. 125.
- _____. 1976.
 "Crises of crisis management: elements of a political crisis theory," International Journal of Politics, Vol 6:3, p. 29.
- _____. 1984.
Contradictions of the Welfare State. Cambridge, MA: MIT Press.
- Officer, Lawrence H. and Willett, Thomas D. 1969.
The International Monetary System. Englewood Cliffs, NJ: Prentice-Hall.
- Okun, Arthur. (ed.). 1972.
The Battle Against Unemployment. 2nd edition. New York: W.W. Norton.
- Olson, Mancur. 1971.
The Logic of Collective Action. 2nd edition. Cambridge, MA: Harvard University Press.

- _____. 1984.
"Ideology and economic growth," in Hulten, Charles R. and Sawhill, Isabel V. (eds.). The Legacy of Reaganomics: Prospects for Long-Term Growth, p. 229.
- Organization for Economic Cooperation and Development. 1974.
Monetary Policy in the United States. Paris: OECD.
- Paldam, M. 1979.
"Is there an electional cycle?" Scandinavian Journal of Economics, Vol 81:2.
- Palmer, John. 1980.
"Economic crisis," in Miliband, Ralph and Saville, John, Socialist Register, 1980. London: Merlin Press, p. 25.
- Palmer, John L. and Sawhill, Isabel V. (eds.). 1984.
The Reagan Record: An Assessment of America's Changing Domestic Priorities. Cambridge, MA: Urban Institute/Ballinger Publishing.
- Parboni, Riccardo. 1981.
The Dollar and Its Rivals. London: Verso Editions.
- Pastre, Olivier. 1981.
Multinationals: Bank and Corporate Relationships. Greenwich, CN: JAI Press.
- Pechman, Joseph A. (ed.). 1983.
Setting National Priorities: The 1984 Budget. Washington, D.C.: Brookings Institution.
- Petras, James and Robert Rhodes. 1976.
"The reconsolidation of U.S. hegemony," New Left Review 97, p. 37.
- Pierce, Lawrence C. 1971.
The Politics of Fiscal Policy Formation. Pacific Palisades, NJ: Goodyear Publishing Company.
- Phidd, Richard W. and G. Bruce Doern. 1978.
The Politics and Management of Canadian Economic Policy. Toronto: Macmillian of Canada.
- Pollin, Robert. 1986.
"Alternative perspectives on the rise of corporate debt dependency," Review of Radical Political Economy, Vol 18:1, p. 205.

- Poulantzas, Nicos. 1969.
 "The Problem of the capitalist state," New Left Review 58,
 p. 67.
- _____. 1973.
Political Power and Social Classes. Paris, 1968; London: New
 Left Books.
- _____. 1974.
Fascism and Dictatorship. France 1970, London: Verso.
- _____. 1978.
Classes in Contemporary Capitalism. France 1974, London:
 Verso.
- _____. 1980.
State, Power, Socialism. France 1978, London: Verso.
- Przeworski, Adam and Wallerstein, Michael. 1982.
 "The structure of class conflict in democratic capitalist
 societies," American Political Science Review, Vol 76:2,
 p. 215.
- Quick, Perry D. 1984.
 "Businesses: Reagan's industrial policy," in Palmer, John L.
 and Sawhill, Isabel V. (eds.), The Reagan Record: An
 Assessment of America's Changing Domestic Priorities, p. 287.
- Rapping, Leonard A. 1984.
 "Bureaucracy, the corporation, and economic policy," Journal
 of Post Keynesian Economics, Vol 6:3, p. 337.
- Reagan, Michael D. 1961.
 "The political structure of the Federal Reserve System,"
American Political Science Review, Vol 55:1, p. 64.
- Reich, Robert B. 1982.
 "Why the U.S. needs an industrial policy," Harvard Business
 Review, Vol 60:1, p. 74.
- _____. 1983.
 "The next American frontier," Atlantic Monthly, (March), p.
 43.
- Rivlin, Alice M. 1987.
 "Economics and the political process," American Economic
 Review, Vol 77:1, p. 1.

- Romer, Christina D. 1986.
 "Is the stabilization of the postwar economy a figment of the data?" American Economic Review, Vol 76:3, p. 314.
- Sachs, Jeffrey. 1980.
 "The changing cyclical behavior of wages and prices: 1890-1976," American Economic Review, Vol 70:1, p. 78.
- Sah, Raaj Kumar and Stiglitz, Joseph E. 1986.
 "The architecture of economic systems: Hierarchies and polyarchies," American Economic Review, Vol 76:4, p. 716.
- Sale, Kirkpatrick. 1975.
Power Shift. New York: Random House.
- Sampson, Anthony. 1972.
The New Anatomy of Britain. New York: Stein & Day.
- Samuelson, Paul M. 1971.
 "Reflections on the merits and demerits of monetarism," in Diamond, James J. (ed.), Issues in Fiscal and Monetary Policy: The Eclectic Economist Views the Controversy, Chicago: DePaul University Press, p. 7.
- _____. 1979.
Foundations of Economic Analysis. (first edition: 1947). New York: Anteneum.
- San Francisco Bay Kapitalistate Group. 1977.
 "Political parties and capitalist development," Kapitalistate 6, p. 7.
- Schultze, Charles L. 1977.
The Public Use of Private Interest. Washington, D.C.: Brookings Institution.
- Scott, John. 1979.
Corporations, Classes and Capitalism. New York: St. Martin's Press.
- Sherman, Howard. 1979.
 "A Marxist theory of the business cycle," Review of Radical Political Economy, Vol 11:1, p. 1.
- _____. 1983.
 "Realization crisis theory and the labor theory of value," Science and Society, Vol 47:2, p. 205.

- _____. 1986.
 "Changes in the character of the U.S. business cycle," Review of Radical Political Economy, Vol 18:1, p. 190.
- Siegel, Abraham J. and Meyer, Charles A. 1960.
 "Continuity and change in American labor problems," in Freeman, Ralph E. (ed.). Postwar Economic Trends in the United States, p. 189.
- Silk, Leonard. 1984.
Economics in the Real World. New York: Simon & Schuster.
- Silk, Leonard and Silk, Mark. 1980.
The American Establishment. New York: Basic Books.
- Sklar, Holly. (ed.). 1980.
Trilateralism: The Trilateral Commission and Elite Planning for World Management. Boston: South End Press.
- Skocpol, Theda. 1973.
 "A critical review of Barrington Moore's Social Origins of Dictatorship and Democracy," Politics and Society, Vol 4:1, p. 1.
- _____. 1979.
States and Social Revolutions. Cambridge: Cambridge University Press.
- _____. 1980.
 "Political response to capitalist crisis: Neo-Marxist theories of the state and the case of the New Deal," Politics and Society, Vol 10:2, p. 155.
- Snyder, Wayne W. 1970.
 "Measuring economic stabilization, 1955-65," American Economic Review, Vol 60:5, p. 924.
- Sorenson, Theodore C. 1965.
Kennedy. New York: Harper & Row.
- Stein, Herbert. 1969.
The Fiscal Revolution in America. Chicago: University of Chicago Press.
- Stockman, David. 1986.
Triumph of Politics. New York: Avon Books.
- Strange, Susan. 1985.
 "Interpretations of a decade," in Tsoukalis, Loukes. (ed.). The Political Economy of International Money, p. 1.

- Summers, Lawrence H. 1984.
 "The long-term effect of current macroeconomic policies," in
 Hulten, Charles R. and Sawhill, Isabel V. (eds.). The Legacy
 of Reaganomics: Prospects for Long-Term Growth, p. 179.
- Sundquist, James L. 1968.
Politics and Policy: the Eisenhower, Kennedy and Johnson
 Years. Washington, D.C.: Brookings Institution.
- Temin, Peter. 1976.
Did Monetary Forces Cause the Great Depression?. New York:
 W.W. Norton.
- Therborn, Goran. 1978.
What Does the Ruling Class Do When It Rules?. London: Verso.
- _____. 1980.
The Ideology of Power and the Power of Ideology. London: Verso
 Editions.
- _____. 1983.
 "Why some classes are more successful than others," New Left
 Review 138, p. 37.
- _____. 1984.
 "New questions of subjectivity," New Left Review 143, p. 97.
- Trilateral Commission. 1979.
Industrial Policy and the International Economy. (Trilateral
 Papers 19).
- Tsoukalis, Loukes. (ed.). 1985.
The Political Economy of International Money. London: Sage
 Publications.
- _____. 1985.
 "The New International Monetary 'System' and Prospects for
 Reform," in Tsoukalis, Loukes. (ed.). The Political Economy
 of International Money, p. 283.
- Tufte, Edward R. 1978.
Political Control of the Economy. Princeton, NJ: Princeton
 University Press.
- Turnovsky, Stephen J. and Wohar, Mark E. 1984.
 "Monetarism and the aggregate economy: some longer-term
 evidence," Review of Economics and Statistics, Vol 66:4, p.
 619.

- U.S. Congress. 1980.
The Business Cycle and Public Policy, 1929-80. Washington,
 D.C.: Joint Economic Committee.
- U.S. House. 1976.
Financial Institutions and the Nation's Economy. Washington,
 D.C..
- U.S. Senate. 1974.
Legislative History -- Congressional Budget and Impoundment
 Control Act of 1974. Washington, D.C..
- Useem, Michael. 1979.
 "The social organization of the American business elite and
 participation of corporation directors in the governance of
 American institutions," American Sociology Review, Vol 44:4,
 p. 553.
- _____. 1980.
 "Which business leaders help govern?" in Domhoff, G. William.
 (ed.). Power Structure Research, p. 199.
- _____. 1982.
 "Classwide rationality and the politics of managers and
 directors of large corporations in the United States and Great
 Britain," Administration Science Quarterly 27, p. 199.
- _____. 1983.
 "Business and politics in the United States and United
 Kingdom," Theory and Society, Vol 12:3, p. 281.
- Wakefield, Joseph C. 1984.
 "Anatomy of a federal government deficit, fiscal year 1983,"
Survey of Current Business, Vol 64:3, p. 19.
- _____. 1985.
 "Federal budget developments," Survey of Current Business, Vol
 65:9, p. 16.
- _____. 1986.
 "Reducing the federal government deficit: an update," Survey
 of Current Business, Vol 66:2, p. 32.
- Wallerstein, Immanuel. 1979.
The Capitalist World-economy. Cambridge: Cambridge University
 Press.
- _____. 1983.
Historical Capitalism. London: Verso.

- Warren, Bill. 1973.
 "Imperialism and capitalist industrialization," New Left Review 81, p. 3.
- _____. 1980.
Imperialism: Pioneer of Capitalism. London: New Left Books.
- Weeks, John. 1982.
 "A note on the underconsumptionist theory and the labor theory of value," Science and Society, Vol 46:1, p. 60.
- _____. 1983.
 "On the issue of capitalist circulation and the concepts appropriate to its analysis," Science and Society, Vol 47:2, p. 214.
- Weintraub, Robert E. 1978.
 "Congressional supervision of monetary policy," Journal of Monetary Economics 4, p. 341.
- Weisskopf, Thomas. 1979.
 "Marxian crisis theory and the rate of profit in the post war U.S. economy," Cambridge Journal of Economics 3, p. 341.
- Welles, Chris. 1986.
 "Is deregulation working?" Business Week, (December 22), p. 50.
- Wildavsky, Aaron. 1964.
The Politics of the Budgetary Process. Boston: Little, Brown.
- White, Theodore. 1961.
The Making of the President, 1960. New York: Antheum Publishing.
- Whiteley, Paul F. 1983.
 "The political economy of economic growth," European Journal of Political Research 11, p. 197.
- Willetts, Peter. (ed.). 1982.
Pressure Groups in the Global System. New York: St. Martin's Press.
- _____. 1982.
 "Pressure groups as transnational actors," in Willetts, Peter. (ed.). Pressure Groups in the Global System, p. 1.
- Williamson, John. 1985.
 "The theorists and the real world," in Tsoukalis, Loukes. (ed.). The Political Economy of International Money, p. 45.

- Wolfe, Alan. 1977.
The Limits of Legitimacy: Political Contradictions of Contemporary Capitalism. New York: Free Press.
- _____. 1981.
America's Impasse: The Rise and Fall of the Politics of Growth. New York: Pantheon Books.
- Wood, John H. 1976.
 "A brief history of British experience of inflation and incomes policy," University of Birmingham, Department of Economics working paper.
- Woolley, John T. 1983.
 "Political factors in monetary policy," in Hodgman, Donald R. (ed.). The Political Economy of Monetary Policy: National and International Aspects, p. 177.
- _____. 1984.
Monetary Politics: The Federal Reserve and the Politics of Monetary Policy. Cambridge: Cambridge University Press.
- Wright, Erik Olin. 1978.
Class, Crisis and the State. London: Verso Editions.
- _____. 1979.
 "The value controversy and social research," New Left Review 116, p. 53.
- _____. 1983.
 "Giddens's critique of Marxism," New Left Review 128, p. 11.
- Yaffe, David. 1973.
 "The crisis of profitability: a critique of the Glyn-Sutcliffe thesis," New Left Review 80, p. 45.
- _____. 1973.
 "The Marxian theory of crisis, capital and the state," Economy and Society, Vol 2:2, p. 186.
- _____. 1974.
 "Value and price in Marx's Capital, manuscript.
- Yarbrough, Beth V. and Yarbrough, Robert M. 1985.
 "Free trade, hegemony, and the theory of agency," Kyklos, Vol 38:3, p. 348.