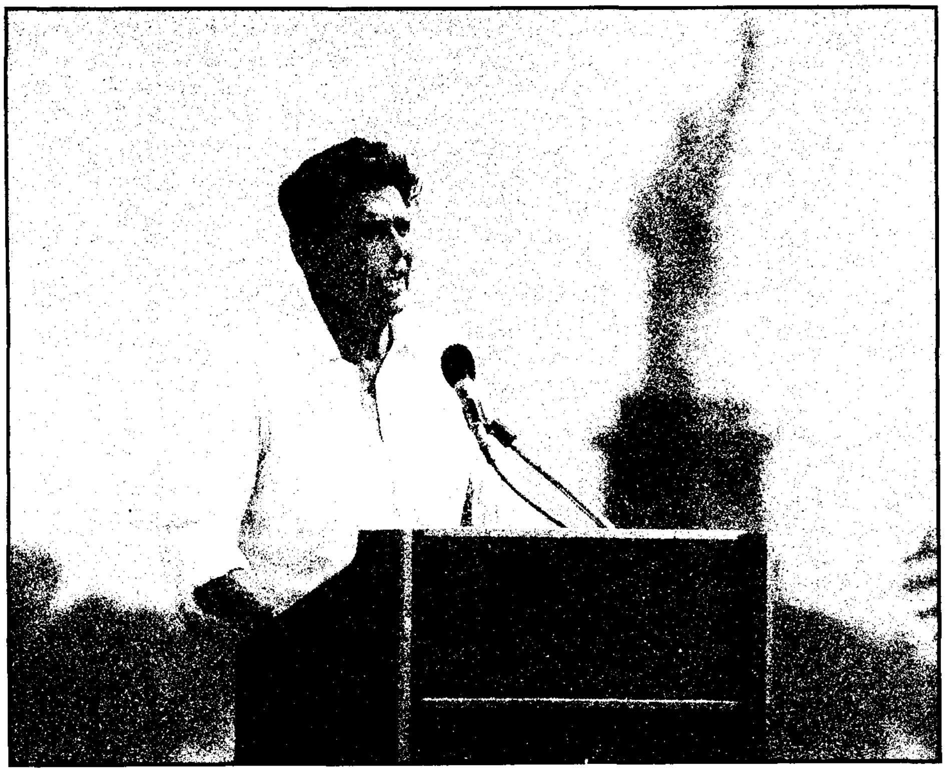
John Grahl

Reagan in Trouble

The US economy is in difficulties with interest rates at record levels. The western economies are threatened as a consequence. The result may be growing economic instability, even a slump.



The interwar years gave rise to the adage, 'when the United States sneezes, the rest of the world catches pneumonia'. The widespread stock market panic of last September is already rather more than a sneeze.

Share prices tumbled from London to Tokyo, but it is clear that the centre of the disturbance was New York. Ronald Reagan's economic programme has run into serious trouble. The consequences for other economies are starting to cause concern, even alarm.

Through the summer US interest rates rose as the central bank and the Wall Street money markets resisted Reagan's demands for cash. Then share prices and the value of long term bonds started to slip, threatening a further decline in the already stagnant levels of US investment.

In itself, there is nothing new in a credit squeeze by the central bank and big finance against an ambitious government. But the usual targets of such tactics are governments of the Left or the Centre. Why is this treatment being applied to the reactionaries in the White House? What are the possible effects on other countries?

The supply-siders

To attempt an answer to these questions we can begin by taking a look at the present, highly confused, state of right wing economics. Reagan is often thought of simply as a monetarist, as if his views were more or less identical to those of Margaret Thatcher and the British Right. This can be rather misleading.

Monetarism, both in theory and in the British experience since 1979, has a simple basis — unemployment. The mechanics of economic policy may be confused (the last thing that monetarist economists understand is the complex role of money and credit in the capitalist system) but the central strategy is clear — intensify and accelerate the crisis, with the weight of mass unemployment on popular living standards as the key weapon.

For Ronald Reagan's advisers this kind of thinking was old-fashioned and politically unattractive. Certainly Reagan complained about inflation and promised tight monetary discipline — as all US politicians do. But what 'Reaganomics' offered was not an intensified crisis but a boom. The stress was on 'supply-side' measures which would revitalise the sluggish US economy.

Supply-side doctrine, very much a product of the West coast of the United States, has a lot in common with the exotic religious cults that flourish in California and occasionally break into national prominence. What it lacks in logic it makes up in enthusiasm and evangelical drive. Unlike the monetarists the supply-siders did not make government spending their principal target. They argued that what was holding back the economy was government itself — in particular through taxes and economic regulation. If taxes were cut and Federal regulations swept away the budget would balance itself.

The claims, in true California style, were extravagant. Arthur Laffer, leading supply-sider, argued that cutting taxes would actually bring in *more* tax revenue, so great would be the stimulus of increased incentives. Removing Federal economic intervention on such matters as environmental protection, minimum wages or safety in the workplace would drastically cut costs of production, boosting profits, investment and employment.

Although Mrs Thatcher made considerable play with tax cuts in her election campaign, in practice the 'supply-side' elements in her own programme were soon swamped by the orthodox monetarist tactics of deflation and more deflation. Reagan's economic experts were determined to avoid what they called 'Thatcherism', the vicious downward spiral where each round of spending cuts further weakens the economy, destabilises public finances and prepares the ground for more of the same. In a sense, what they offered was less like monetarism than an extreme and eccentric form of Keynesianism. They talked of improving the 'supply' side of the economy but what they proposed was in fact a huge injection of demand in the form of lower tax bills and war expenditures. They relied on a buoyant response from businessmen, stimulated by tax-breaks and the end of Federal controls, to make the whole thing work.

In this hope the Reaganites were disappointed. As early as the spring of this year, while the right wing bandwagon rolled the supply-side measures through Congress, the financial markets of New York turned against the new administration. Interest rates started to rise, share prices to fall. The boom did not materialise — 'Thatcherism' was at hand.

The new right

Comment in the British press has tended to exaggerate both the strength and the coherence of the right wing moves in US politics which brought Reagan to office. It is true that in last year's elections the Republicans piled up some big majorities. But in two ways the victory was less impressive than it seemed.

Firstly, it was based on mass apathy and political alienation unprecedented even in the United States — only 51% of the potential electorate went to the polls and even of these over 40% remained loyal to the Democratic Party. Hardly an unqualified popular mandate.

Secondly, the Reagan vote itself was based less on a general political consensus than an amalgamation of social groups assembled by the most diverse slogans for a thoroughly heterogeneous range of objectives. Reagan was all things to all (right wing) people. For the protestant conservatives of small town America, the so-called 'moral majority', he was the embodiment of 'traditional' values. To the anti-communists, the chauvinists still smarting from defeat in Vietnam and the war industries, he offered a 'get tough' foreign policy and rearmament. The issue of abortion was skilfully used to carry the right wing message into catholic constituencies. Even sections of organised labour, such as the Teamsters' union, were won over by exploiting disillusionment in Jimmy Carter and the promise of full employment.

Supply-side economics performed the eventual function of holding the whole motley alliance together. A huge revolt against local and state taxes — beginning once again in California — had proved the effectiveness of tax cuts as a vote-getter. This was particularly the case in the South and South West which has enjoyed prosperity through the seventies even while the industrial heartland of the North East succumbed to recession. The economics of the 'sun-belt' remote from Washington, from the declining industries of Pittsburg and Detroit was a delicious escape into unreality.

As electoral tacticians the 'new right' of the US were an outstanding success. For the strategic tastes of government, forming a stable political base with clear objectives and a coherent policy, they were ill-equipped.

Reagan and big business

The extreme and incoherent nature of the Reagan programme accounts for the fact that the first serious friction met by the new government was with sections of big capital. A central question here was the Reaganite attitude to government.

Monopoly capital in the US is not seriously opposed to national government. It is, after all, its own government. This is the case, for instance, with many Federal regulatory agencies. Some of these, concerned with such matters as environmental protection, are subject to democratic pressures. But in general Federal regulation of an industry is simply the self-regulation of the dominant private companies. No action will be taken by Washington which is not consistent with their interests. At the present time, when major reorganisations of US industry are underway, the Federal government can be an essential tool in restructuring the US economy under the giant corporations, which are hardly likely to see the dismantling of regulatory machinery as an unmixed blessing.

The oil industry is an important example. The big oil companies are faced with a major reorganisation of the energy sector — new sources of petroleum and natural gas are being developed while there is intense research into alternative fuels. The Carter administration set up the Synfuels Corporation to handle these problems; now the Republican administration is tempted to abolish it. But the last thing the big multinationals want is a free-for-all in this area, which could wreck their nicely calculated price structures, rob them of their share of the market and wipe millions off the value of their foreign investments.

Similar considerations apply to Reagan's complete lack of any regional policy. For the supply-siders, efforts to aid the depressed North East and Mid West states are futile, working only to break the dynamic of the sun-belt where the absence of strong unions and abundant supplies of Hispanic labour offer attractive investment opportunities. For many sections of big business, with important interests in the main industrial regions, such an approach was cavalier in the extreme.

Thus big business, although it supported the general move to the right, did not buy the supply-side notion of an imminent boom in the US economy. This scepticism conditioned the response of the big banks to the Federal budget. Tax cuts might be welcome, but the government was claiming a larger, not a smaller, share of national resources: cuts in civilian expenditure, large as they were, did not begin to match the tax reductions while military hardware was being treated as a virtually free resource — the Pentagon had only to name its wishes to make the most outlandish weapon systems 'essential to national security'. The Federal government was in fact piling up a sizable budget deficit — the banks and the monetary authorities declined to finance it. Interest rates rose as Washington attempted to increase its borrowing on the open market — suddenly the Reagan honeymoon was over.

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Opposition

As economic forecasts became steadily more pessimistic, other dissenting voices were heard. The US Congress, in spite of a Democratic majority in the House of Representatives, had this spring simply capitulated to the White House. Tax cuts, reductions in public services and poverty relief spending were enacted almost letter for letter to the president's dictation. Now the stagnating economy has broken the spell of Reagan's supposedly overwhelming mandate. The presidential elections were last year. Next year's congressional elections are now concentrating political minds on the dangers of being too closely associated with an executive that is visibly failing to deliver on its promises.

The result is that the latest economic measures proposed by the government will be subject to intense congressional scrutiny and seem likely to be rejected. Treasury officials nervously threw together a package of policies — some reductions in war spending, further welfare cuts, some disguised tax increases — designed to stabilise public finances and propitiate the bankers. The reaction on Wall Street and on Capitol Hill is that much more than these token adjustments is needed.

Reagan's budget deficit also means that he will shortly have to ask Congress to permit an increase in the US national debt as, for the first time, it rises beyond one billion dollars ($1,000,000,000,000). The figure itself is of little more than symbolic significance but the event will become the occasion for outspoken comment on the dubious bases of present economic policy.

At the same time the official leadership of the US labour movement in the AFL-CIO (America's TUC) has been driven from its usual somnolence into active opposition. Since the witch-hunts of the 1950s US union leaderships have worked harmoniously with big business and Federal government. Jobs were cheerfully traded against wage increases for the minority of workers who belong to unions. Political dealing at state and national level became a substitute for real organisational strength. Membership declined and with it the political clout of the union bosses themselves.

The new government, conditioned by the industrial practice of the sun-belt where unionisation is rare, has switched from negotiation with labour to outright union-busting. The AFL-CIO is still reeling from the summary sacking of the nation's air traffic controllers after a strike of just three days in August (ironically the union concerned, PATCO, had come out for Reagan last year.) Suddenly deprived of their usual links with government, union leaders have turned to their rank and file: the recent trade union protest in Washington, with 250,000 demonstrators, was one of the biggest demonstrations for years.

At the start of this year only the very small Left in the US was in open opposition to the government (even the Left is not a negligible force — it was able to mobilise strong resistance to US intervention in El Salvador.) The rapid emergence of major opposition groupings, focused on domestic economic issues, illustrates that political life in the US is neither as static as it sometimes appears, nor as subject to monolithic right wing control. It is true that there is no coherent mass opposition to the system as a whole but that absence does not rest solely on the ideological dominance of the Right. It also depends on the material benefits the system has offered to millions of Americans whose living standards are now in jeopardy. If the Reaganites do not succeed in raising the financial siege to which they are being subjected then the prospects are for a deep depression in the US economy accompanied by serious political instability.

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The international implications

As the recent upheavals on stock markets and currency exchanges have shown, major uncertainty in the United States is itself a disturbing factor in the world economy. During the Carter administration relative stability in the US helped to mitigate the effects of recession elsewhere. That stabilising influence has now been removed.

At present the record level of US interest rates and the consequent appreciation of the dollar has forced reassessments of economic policy in many countries where governments are faced with the unpleasant choice between matching the US credit squeeze or letting their currencies fall in value. Since not only oil, but a wide range of commodities have their prices set in dollars the inflationary impact of currency depreciation can be severe. On the other hand interest rates rising towards 20% can mean unbearable strains on industrial sectors already deep in recession.

This dilemma is particularly acute in Britain, where it has brought closer the possibility of a financial debacle for Mrs Thatcher's government. The whole array of 'monetary targets' for the UK has now been jettisoned in order to mount a desperate defence of the sterling exchange rate. With the recent 4% rise in British interest rates, any hope of a 'bottoming-out' in the recession has been sacrificed to the same objective. Even so, it is doubtful whether the line can be held. History gives little grounds for optimism when a British government embarks on this course.

But the squeeze on Britain is only one example. Similar pressures are being felt in Canada, in Western Europe and in the developing countries. Compounding the immediate problem is the insouciance with which external economic difficulties are accepted by the Reagan administration. On a range of international economic issues, from foreign aid and the development loans of the World Bank to the law of the sea and the exploitation of oceanic minerals, Washington is proposing the same supply-side formula — dismantle the official agencies, leave everything to the stimulus of profits and the play of market forces. The structure of inter-governmental economic cooperation was in any case completely inadequate to respond to the world crisis. It is now being further weakened.

And beyond the present monetary disturbances two further threats are beginning to appear. The first is the possible repercussions of the US events on international debts. United States banks are the basis of a global system of dollar loans which has for some time seemed increasingly exposed to default by major debtors. If high long term interest rates or other factors (such as the the credit controls now contemplated by Congress) block access to US capital markets then the risk of sudden and drastic dislocation of international lending is substantially increased.

The irony is that the present system of international economic relations is essentially a US creation.

Above everything else there is the terrifying prospect of a major slump in the United States. It would be an exaggeration to say that this is an immediate probability. Neither side in the present power struggle wants a drastic decline in demand — the Reaganites are looking for expansion while the big banks and the monetary authorities might well relax the credit squeeze if economic decline starts to accelerate. Nevertheless, depression is implicit in present US monetary conditions just as it was in Mrs Thatcher's so-called financial strategy.

As to the consequences of a US slump, accompanied in all likelihood by a rapid switch to protection, it is certain only that the present system of world trade and payments could no more survive such an outcome than could that of the 1930s.

The irony is that the present system of international economic relations is essentially a US creation. Throughout the postwar years all the economic and political weight of the United States was used to establish a world in its own image — with free mobility for US capital and minimum barriers to the movement of US exports, while the dollar replaced sterling as the central means of international payment. In good times and bad United States capital has itself abused the resulting institutions. In the fifties and sixties the privileged position of the dollar was exploited by a massive expansion of overseas investment financed by the over-issue of dollar loans. Then in the early seventies Richard Nixon unilaterally devalued the dollar, imposed a surcharge on US imports and — in the middle of a world crisis — restricted overseas access to US credit.

The present monetary pressures mark a further abdication of US responsibility — the international credit squeeze being simply a neglected by-product of a domestic political adventure. If the likely response in other countries is to limit their exposure to these chaotic forces and move towards more control over their own external economic relations, it is also important to assert the need for more equitable, rational and stable management of the international economy as a whole. □

SPONSORSHIP IN SPORT

Ron McKay

One of the sides you won't be seeing on *Match of the Day* this season is Coventry City, another of presenter Jimmy Hill's interests. The club has offended the BBC by cleverly redesigning its strip to include its new sponsor's logo — the distinctive black and white 'T' of Talbot cars — without actually splashing the company name across eleven chests.

BBC policy is not to screen events where the participants, central to the action, are wearing advertising. Hence boxer Alan Minter and Daf Trucks — the company whose name adorned the trunks he sat on when Sibson knocked him down — failing to appear on Sportsnight. Jimmy Hill, as part-time BBC employee and chairman of Coventry City, obviously knew the policy. However, he won't talk about his dual interests and the conflict they caused. Perhaps like the rest of us he finds the logic tortuous. After all, teams wearing the distinctive three stripes of Adidas on their boots and strips appear every week, racing cars plastered in cigarette ads aren't blacked out and every BBC announcer manages to include the names of the sponsors of Test cricket, athletics and snooker.

Sponsorship has become essential to most sports, even to soccer, which ten years ago would have shunned the advances of Japanese hi-fi manufacturers and American car men. The estimated £100,000 that Talbot will give Coventry this year will help to pay for ground improvements and to make up the increasing shortfall between attendance income and costs. But will sponsorship help to revive our flagging national game, or will it change it out of all character? Cricket, ironically, gives a glimpse of the way ahead.

In 1963 cricket was dying on its feet, attendances were plummeting, cricketers were appallingly paid and an increasing number of foreign players were being drafted to make up the deficiencies and to provide spectator appeal. In that year Gillette paid just £6,500 to sponsor the Gillette Cup, a knock-out series of limited over one-day matches which the purists snorted at. It was a raging success in terms of crowd appeal and the Cup became institutionalised in the game so much so that 10 years later Gillette pulled out because people had actually forgotten that they made razor blades. The Nat West Bank took over, carefully emphasising *bank* in the promotional material.

Last year sponsorship brought in an estimated £2.5 million for cricket. Cigarette companies in particular, banned from direct TV advertising, have been eager to dish out their money, sponsoring the Sunday John Player League and the Benson and Hedges Cup. Lambert and Butler, the latest sponsor, has gone one gimmicky step further and introduced the floodlit evening tournament.

In the past five years Cornhill have been sponsoring Test matches, at a cost of about £200,000 a year, less than some ads now cost to *make*, far less transmit. That sponsorship has meant that England players now receive £1,400 a Test compared with £220 in 1971. But look at the benefits for Cornhill in those five years. The company was seeking to engender a feeling of security and trust by its sponsorship, to create awareness of its name. When it started sponsorship it was rated 12th among UK insurance companies in size but the public's 'spontaneous awareness' of its name was a mere 2%. The name is now known to 17%, the increase in premiums directly attributable to the cricket exposure was a staggering £10 million, putting the company near the top of the insurance league.

But what of cricket? Has the game developed commensurately? It has not. Ian Botham may earn £50,000 a year, and his saving of England surely guaranteed Cornhill a further few million in premiums in the last Test series, but the lot of the average county professional is as bad as ever. The concentration on the one-day game and its thrills and quick scoring has left our batsmen in particular ill-equipped to deal with the prolonged examination of Test cricket. The last Test series may have been exciting but it relied for that on the incompetence, rather than brilliance, of the performers. The West Indies, would anyone seriously deny, would have destroyed both sides and neither sponsors nor participants would have been happy.

Clearly sponsorship benefits companies because it is comparatively cheap and brings their name before the public. In 1980 there were 369.45 hours of cricket on television, most of it sponsored, all of it at least having peripheral advertising round the ground. Soccer coverage was 215 hours. And look at the five most covered events in the first six months of this year — Embassy snooker (72 hours), Prudential cricket (24), Cornhill cricket (24), Sun Alliance golf (15 hours) and Stella Artois tennis (13 hours). Sport has sold itself cheaply.

It is fruitless arguing that the tide can be reversed, with football, the last bastion, having been eroded. Greed and incompetence has led to the present state. In the thirties, forties and early fifties football boomed, gates were mammoth, wages were held down and the directors took their profits leaving facilities to run down and attitudes to atrophy. In the process we have become a second-rate football nation.

So, if money is to go into sport — and clearly government isn't going to provide it — it should be to help develop from the bottom up. But it won't, because there are too many competing self-interests. Aided by the hypocrisy of the participants and by organisations like the BBC. Most of the sport you see on television is there because sponsorship has made it cheap to buy. Television, despite the prurient internal responses, works hand in hand with sponsors. Commerical sponsors deliberately bring down the cost to a level the BBC will buy at so that their product gets exposure, cheaply for them and the BBC. Ask Embassy, Cornhill and Benson and Hedges.

Even amateur sports, like athletics, make their accommodations. And, despite what anyone would have us believe, athletes do receive substantial appearance money. And the indirect benefits of advertising money. Consider Sebastian Coe. In future he will be able to advertise products not associated with athletics and the money will go into developing athletics generally. Sensible, but will Seb actually do it for free? Well, he