Reviews

Supply-Side Demands

The Supply-Side Revolution: An Insider's Account of Policymaking in Washington, *by Paul Craig Roberts (Cambridge, Massachusetts: Harvard University Press).*

Paul Craig Roberts succeeds in a task that few economists even undertake—to make an eventful period of economic history come alive and thus to attract the interest of a broader audience.

The major theme of his book is that a revolution occurred in economic policy in the United States when Congress passed the Economic Recovery Tax Act of 1981, "a revolution brought about by the unstinting efforts of a few people." That emphasis on the valiant few permeates this description of the events that led up to and followed the passage of the 1981 tax cuts. Thus, the book portrays the author himself as the keeper of the flame, and from the outset it bemoans the fact that President Reagan, in filling economic policy positions, reached out beyond supply-side economists.

Mr. Roberts served as assistant secretary of the Treasury for economic policy in 1981–82. He now holds the William E. Simon chair in political economy at the Center for Strategic and International Studies at Georgetown University.

Scattered throughout this well-written book are useful insights into the policy process. Mr. Roberts explains the many reasons why formal economic analysis has limited effect. He points out that most decision makers cannot recognize careful statistics and sound analysis, and that they will choose on the basis of personalities or how it will play in the press. His overall conclusion is commendable: "Once the public policy process is understood, people will expect less from it."

Yet the analysis of supply-side economics, although extremely readable, is substantively disappointing. Ignoring the literature of public finance, Mr. Roberts writes as though he and his friends discovered that taxes can adversely affect incentives to work, save, and invest. He contends that supply-siders have unearthed a "broad definition of the tax burden" to include production lost as a result of the disincentives imposed by taxation. Such "excess burdens" of taxation have been a staple of traditional economics for almost a century.

Mr. Roberts also oversimplifies the economic process by promoting the view that "fiscal policy works by affecting incentives rather than demand." The Keynesians surely can be faulted for overemphasizing the role of demand, and supply-siders such as Mr. Roberts have made an important contribution to public policy by emphasizing the role of supply. But both viewpoints overlook what the great neoclassical economist Alfred Marshall taught the profession: There are two blades to the economic scissors—supply and demand.

The economic policy of the Reagan administration was, of course, far broader than the tax cuts, important as they were. The development of Reaganomics will undoubtedly make a fascinating chapter in American economic history. Unfortunately, in this book the central character is not President Reagan but the author. A few excerpts illustrate the point: "I estimated that I could help keep the President out of the establishment's cage for a year." "I made a last-ditch effort to get the President's men back on board with the President's policy."

These are odd statements, considering that the only meeting with the president that he describes as having attended was a mass breakfast with all presidential appointees. In fact, Mr. Roberts laments that "I would have liked to sit down and talk things over with him, but the breakfast was a social affair."

The author's position was an assistant secretary of the Treasury; such subcabinet appointees normally do not participate in top-level meetings. Thus, this "insider's account" relies heavily on secondary sources, such as newspaper articles.

An example of this is the report of the meeting at which the president decided not to initiate a proposal to reduce the top bracket on the federal personal income tax from 70 percent to 50 percent. The meeting was hardly the conspiracy against supply-side economics that Mr. Roberts describes. Rather, President Reagan made his decision on the basis that such a desirable but potentially contentious change would more likely be adopted if the Democrats in the Congress took the lead—and he was right.

Ronald Reagan's economic policy deserves a broader-based exposition than these kiss-and-tell (or rather kick-and-tell) memoirs. A historian less concerned with justifying his own position might focus directly on the substance of the economic white paper of February 18, 1981, the first major exposition of the President's economic program.

In this document, and in innumerable subsequent statements issued by the administration, the emphasis was on the four pillars of the program to reduce inflation and encourage economic growth: tax cuts, spending cuts, regulatory reform, and monetary restraint.

This approach drew on each of the leading schools of conservative thought and required the broad base of thinking that Mr. Roberts objects to so vehemently. The tax cuts reflected supply-side concerns about excessively high marginal rates. The monetary policy was couched in monetarist language, emphasizing stable growth of the money supply. Budget cutting is a staple of traditional conservative thinking. And regulatory relief is a goal that all three schools embraced enthusiastically.

As of early 1984, it is apparent that movement on the four pillars of Reaganomics has been extremely uneven. Progress on the reduction of tax burdens has been far more rapid than on the other aspects. It is surprising, therefore, that this genuine achievement is not a source of greater joy to the author who, in contrast, writes of the "unraveling" of Reaganomics.

It is in the area of spending cuts that the results have been so disappointing. While federal revenues have declined as a portion of gross national product since 1980, federal spending has risen from 22 percent of GNP in 1980 to 25 percent in 1983. Moreover, regulatory reform has been more modest than expected. Finally, monetary policy has been, at best, eclectic and surely not the stable, predictable, and moderate approach urged in the white paper.

The detailed chronology of infighting, backbiting, and jockeying for position that constitutes the core of the book is frequently fascinating. Yet at some points, participants reading the book would feel like characters out of *Rashomon.*

Most of the specific events that Mr. Roberts describes did occur, but they often unfolded in a different way. For example, he sees the vital meetings in January and February 1981, held in order to arrive at the economic assumptions underlying the budget, only in terms of personal rivalry and political aspirations. In actuality, those meetings were hardly a battle for turf, but rather a debate between theology and analysis. Whenever the extreme optimism of the supply-side forecasts was questioned, the answer was in religious terms, "If you do not show optimistic results, you do not believe in the program." The constant desire to use the high end of the range of possible economic outcomes—although motivated by the desire to protect the tax cuts from "backsliders"—created unfulfilled expectations and reduced the credibility of Reaganomics.

I still recall the many budget-cutting meetings in the White House that the supply-siders dismissed as needless in view of the torrent of revenue they expected from the tax cuts. It is ironic to reflect on how much smaller the deficits would have been—and the permanence of the tax cuts more secure—if Mr. Roberts and his associates had assaulted specific spending programs with the energy and vehemence that they devoted to attacking the rest of the Reagan administration.

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Right Man, Wrong Time

Caveat: Realism, Reagan, and Foreign Policy *by Alexander M. Haig, Jr. (New York: Macmillan Publishing Co).*

On Inauguration Day, 1981, the new secretary of state, Alexander M. Haig, Jr., delivered to the White House the draft of a document that would give him full authority to "formulate and execute foreign policy" for the next four years. This draft, which he intended to be the new president's first national security directive (NSDD-1), would have made the secretary of state the single manager of foreign policy, giving him preeminence over all other Cabinet members, the director of central intelligence, and the national security adviser. The document sank from sight and was never issued.

This stillborn attempt to seize power set the tone of Mr. Haig's tenure as secretary of state, an experience from which he emerged 18 months later feeling that his efforts had been frustrated at every turn. *Caveat,* which chronicles this experience, is a sad book, shot through with Mr. Haig's sense of promise unfulfilled.

When Ronald Reagan took office, the country was ready for a new era in foreign policy. The public looked to the new president to restore the national defense and renew America's self-confidence. The president promised a bold, unmistakenly anticommunist foreign policy, which would confront Soviet expansionism around the world with a new American resolve. And Mr. Haig was ready to articulate and implement that policy, in what he expected would be a close and powerful working relationship with the president.

It was not to be, despite Mr. Haig's background as one of the best qualified men ever to become secretary of state. During more than three years at the National Security Council, and later, as White House chief of staff for Richard Nixon, he had exercised power at the highest levels. During his NSC years, he and his boss, Henry Kissinger, had run foreign policy from the west wing of the White House. When Mr. Kissinger later became secretary of state, he took his authority with him. Under President Reagan, Mr. Haig expected to exercise the same kind of control over foreign policy. But there was a crucial difference: Mr. Kissinger had enjoyed the full confidence and support of the president. Mr. Haig never did.

When Mr. Haig joined the Reagan team, he scarcely knew the president and did not understand him. More serious, perhaps, he never developed a relationship with the president's senior staff. His ego and military sense of rank made that impossible. After all, he was the first-ranking member of the Cabinet. He saw the president's men as mere public relations experts, "wizards" skilled in press manipulation, who used their wizardry to attack his efforts at policymaking with leaks and innuendos.

Mr. Haig wanted to make and run foreign policy, with