RESEARCH REPORTS

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"Reagan and the Economy: The Successes, Failures, and Unfinished Agenda."

Institute for Contemporary Studies, 243 Kearny St., San Francisco, Calif., 94108. 301 pp. $22.95.
Author: Michael J. Boskin

How have Ronald Reagan's economic strategies affected American life?

Boskin, a Stanford University economist, contends that the administration's policies, continuing budget deficits aside, have made the United States more productive and prosperous than it was during the 1970s.

Consider America's economy in 1980, prior to Reagan's presidency. Inflation, spurred mostly by excessive expansion of the money supply, grew by 11.3 percent in 1979, up 3.6 percent from 1978. Keynesian economists, such as George Perry of the Brookings Institution, contended that inflation could only be stopped at a punitive cost. Perry argued that each percentage point fall in inflation would result in a reduction of $200 billion in U.S. output.

To reduce inflation, the Reagan administration continued the tight-money policies begun in 1979 by Federal Reserve Board Chairman Paul Volcker. It also added tax-cutting and budget-control strategies that, far from radical, Boskin argues, were "an exaggerated expression of mainstream economic thinking at the time." These strategies, while not *causing* the 1981–82 recession (which was not limited to the U.S.), ameliorated the recession's harmful effects and helped the economic recovery of 1983–84. For, unlike the 1970s, when inflation fell from 12.2 percent in 1974 to 4.8 percent in 1976, but rose to nine percent in 1978, the Reagan years have been a period when inflation has been held to around three percent "for a full six years."

Moreover, the incentives provided by tax cuts and deregulation spurred job creation and reduced unemployment. From 1979–1986, while industry lost two million jobs, the service sector *created* 12 million jobs, pushing the employment rate to over 60 percent—"an all-time high." The 12.7 percent increase in the United States' gross national product (GNP) between 1982 and 1985 was over four times greater than France's.

The Reagan administration's great economic failure, Boskin believes, is that it failed to match tax cuts with corresponding slashes in spending. The massive deficits that resulted are largely due to expanding Social Security budgets.

The federal government's share of the GNP rose from 22.7 percent in Fiscal Year 1981 (the last Carter administration budget) to 23.6 percent in Fiscal Year 1986. While the defense share of the budget rose from 23.2 percent ($157.5 billion) in Fiscal Year 1981 to 27.1 percent ($265.8 billion) in Fiscal Year 1986, Social Security spending (including Medicare) rose even faster, becoming "the most rapidly-growing item" in the budget, expanding from 26.3 percent ($178.7 billion) in 1981 to 27.4 percent ($268.8 billion) in 1986.

State and local government *surpluses* have been rising as steadily as the federal budget deficit. In 1986, for example, the federal budget deficit was $202.8 billion, 4.8 percent of the GNP. State and local governments, however, produced a surplus in 1986 of $59.3 billion—1.4 percent of GNP. These surpluses, combined with foreign investment, will allow time for national budget deficits to be brought "under control without re-igniting inflation."

How should the deficit be reduced? Boskin argues that the best method is to reduce spending, particularly on such "entitlements" as agricultural subsidies and Social Security payments that benefit the well-off instead of the poor. Selling government-owned transportation, energy, and utility firms to the private sector would be a "highly desirable" way to reduce deficits. Rather than raising taxes ("a last resort"), spending reductions and privatization would "send a better signal to financial markets" as to how the government intends to handle future fiscal problems, such as predicted deficits in Medicare funds.

"The Fiscal Impact of Educational Reform."

Center for Education Finance, New York Univ., 300 East Building, New York, N.Y. 10003. 164 pp. $15.00.
Author: Deborah Inman

Upgrading America's public schools through such innovations as "merit pay" for teachers and revamping curricula has been a subject of extensive debate in recent years. But how effective has this movement been in fomenting change? Inman, director of New York University's Center for Education Finance, contends that new outlays for school reform have only been a small fraction of total state education budgets.

Inman asked 44 states to report how much money they spent on school-reform efforts. From Fiscal Year 1983 through Fiscal Year 1987, cumulative state education reform spending was $5.97 billion, less than one percent of the $647 billion the states spent on education. In 1987 alone, states reported spending $2.5 billion on reform, 1.6 percent of the $160 billion in state education expenditures.

The most costly innovation was to increase teacher salaries. The $506 million spent by the states to raise teacher pay in 1987 constituted 20 percent of state education reform spending in that year. Changes both in revising curricula and improving teacher-training standards were less well financed: In 1987, only 4.6 percent ($115 million) of reform spending was used for teacher training and certification requirements, while just 6.7 percent ($170 million) was used to upgrade curricula.

What role did the U.S. Department of Education play in the school-reform movement? In 1987, only nine states used federal money (totaling $14 million) for reform programs. "Federal funds had virtually no impact," Inman reports, on state education reform efforts.

"The Peasant Betrayed: Agriculture and Land Reform in the Third World."

Oelgeschlager, Gunn, and Hain, 131 Clarendon St., Boston, Mass. 02116. 302pp. $40.00.
Authors: John P. Powelson and Richard Stock

Land reform has been one of the "sacred cows" of economic development specialists. But the chief beneficiaries of land reform, the authors charge, are not the rural poor. Third World officials, encouraged by "well-intentioned elites of the industrialized world," use land reform to transfer resources from agriculture to more wasteful projects and/or to their own pockets.

Land reform usually fails because "bureaucrats are not farmers." Instead of peasants (who are intimately familiar with the ecology and climate of the land they work) making decisions about what crops to plant, bureaucrats arrogate these decisions to themselves. They do so either by forcing peasants into state-owned collectives or by controlling credit, fertilizer, or crop marketing.

The ill effects of land reform are felt around the world, argue Powelson, an economist at the University of Colorado, and Stock, assistant professor of economics at the University of Dayton. Consider these countries:

• PERU. On June 23, 1969, Gen. Juan Velasco Alvarado began nationalization of the cultivated crop land in Peru, including foreign-owned sugar plantations. Initially these were worker-controlled, but the state gradually began to dominate credit, water, and sugar marketing, and then directly controlled several cooperatives from 1973 onward. After world market prices for sugar dropped sharply in 1974, the government steadily tightened control of cooperatives' investment and financing. In 1974, Peru *exported* 462 million metric tons of sugar; by 1981, Peru *imported* 158 million metric tons of sugar.

• EGYPT. Land nationalizations began in 1952 and ended in 1969. Peasants given land by the state were required to buy what they needed from a government-controlled co-op and sell what they produced back to the co-op. Later, *all* producers of certain crops (e.g., cotton) were forced to sell their output to the state.

While rich farmers were able to control local marketing boards and diversify their holdings into unregulated crops (e.g., orchards), poor people were only allowed to grow one state-mandated crop, which provided low returns. While poor farmers' incomes rose by two percent from 1960 to 1975, rich farmers increased their incomes by 27 percent. The result of land reform in Egypt: Over a 20-year period, agricultural production *fell*, on average, by 0.4 percent a year, and "city dwellers have rioted in recent years because of food shortages."

• MEXICO. Land reform programs, such as those undertaken by President Lázaro Cárdenas (ruled 1934–40), nationalized farmland, creating large cooperatives in the arid northwestern provinces, while leaving lands in the south and southeast in private hands. Result: Farm income grew faster in the southern part of the country. In some areas, government requirements restricted peasant incomes: Economist Hugh Stringer studied farmers in Morelos, Mexico, who were required to grow sugar and rice, and found that they had a monthly income of $7-11 per hectare for sugar and $26 per hectare for rice—but could earn $40 per hectare if they were allowed to grow tomatoes or hay.

Average Annual Rates of Agricultural Growth Per Capita, Sixties and Seventies, for Selected Countries.

Country	*Sixties*	*Seventies*	*Overall*
Less developed, controlled			
Algeria	-2.31	-1.87	-2.09
Botswana	-0.03	-3.92	-1.96
Egypt	0.21	-1.30	-0.55
India	-0.16	0.78	0.31
Indonesia	0.24	2.39	1.31
Iran	0.69	0.12	0.41
Mexico	-0.24	-0.08	-0.16
Peru	-0.79	-2.39	-1.59
Philippines	-0.37	0.45	0.04
Somalia	-0.23	-4.68	-2.48
Tanzania	2.38	-0.87	0.75
Turkey	0.24	0.56	0.40
Venezuela	0.89	-1.88	-0.50
Zambia	-0.60	-2.31	-1.46

Countries with market-oriented farm policies tend to expand crop production faster than nations where agriculture is dominated by the state.

• SOMALIA. During the 1960s, U.S. agricultural advisers urged Somalian nomads (constituting 66 percent of the population) to settle on fixed plots. In the 1970s, the Somalian government further restricted the acreage that nomads could use to let their cattle and camels graze.

These restrictions ruined the environment, as herdsmen and farmers rapidly exhausted the land assigned to them instead of flexibly moving from range to range. Moreover, wage and price controls, combined with requirements that crop farmers had to sell to state marketing boards, caused overall agricultural output to plummet, and forced thousands of farmers to enter refugee camps during the 1974–75 drought. Despite "massive international aid," Somalian crop exports fell by 63 percent during the 1970s. The result of land reform and ending time-honored agricultural practices: Somalia will not be able to feed itself "in the near future."

When is land reform successful? Only when it leaves the peasants free to make their own decisions about growing and selling their crops. But neither U.S.-backed land reforms (e.g., in Taiwan and El Salvador) nor those sponsored by the Soviet Union or its client states (e.g., Nicaragua) result in "peasant control over farming decisions, except perhaps rhetorically."

"Claiming the Heavens: *The New York Times* Complete Guide to The Star Wars Debate."

Times Books, 201 East 50th St., New York, N.Y. 10022. 320 pp. $17.95.
Authors: Philip M. Boffey, William J. Broad, Leslie H. Gelb, Charles Mohr, and Holcomb Noble

"Star Wars: The Economic Fallout."

Council on Economic Priorities/Ballinger, 54 Church St., Cambridge, Mass. 02138. 234 pp. $19.95.
Senior Project Director: Rosy Nimroody

Since 1984, the United States has spent more than $9 billion on research and development of a space-based antimissile shield, with a final cost expected to reach the trillion-dollar mark. Supporters say an end to the threat of intercontinental ballistic missiles (ICBMs) is well worth the money. Critics say that Star Wars (a nickname for the Strategic Defense Initiative, or SDI) is technologically impossible and funding should be stopped.

A team of reporters from the *New York Times* says that development of SDI is both "impossible and inevitable"—impossible because antimissile technology cannot create a perfect shield against full-scale nuclear attack, inevitable because of the vast momentum generated by an army of defense contractors, lobbyists, technologists, and congressmen.

The Council on Economic Priorities (CEP) agrees, saying Star Wars will be funded, not because of national defense concerns or as a result of successful experiments, but because SDI has become a self-propelled bureaucratic entity, largely fueled by pork-barrel politics.

In 1983–84, SDI contractors contributed over $3.2 million to political action committees (PACs), according to CEP research. Thirty-five percent of those contributions were received by only 13 percent of the total House membership—the 57 representatives who make up the Armed Services Committee and the Appropriations Subcommittee on Defense. In 1985, leading recipients of PAC money in the House voted more than 83 percent of the time against restraining SDI funds.

Regional imbalances are also inherent in generating Star Wars research contracts. Only seven states and the District of Columbia received more in SDI contracts than they paid in taxes to support the program. And while most "winners" are coastal urban areas, "losers" are manufacturing and agricultural regions already hard-hit by low exports and high interest rates. Eight metropolitan areas with 14 percent of the U.S. population paid 19.2 percent of the taxes for SDI and received 62.8 percent of SDI contract obligations.

The SDI's Innovative Science and Technology Program will spend $600 million over the next five years to "get the most brilliant minds" to work on Star Wars. By diverting highly talented engineers and scientists to SDI, the CEP contends, the U.S. may lose its competitive edge because its best and brightest are devoting their careers to exotic weapons technology.

Aside from the threat that any SDI research may be classified secret if determined to be "vital to national interests," critics say direct costs to industry may also skyrocket as SDI pulls technicians from the labor pool. This would duplicate previous experience; during the Apollo space program, research and development labor costs rose 80 percent in the ferrous metals industry and 78 percent in chemicals.

While supporters argue that civilian spinoffs from Star Wars technology will outweigh costs, both sides agree that careful consideration should be given to technical difficulties and the economic and social impact of SDI before a decision about production and deployment is made.

"The Soviet Brigade in Cuba: A Study in Political Diplomacy."

Ind. Univ. Press, 10th and Morton Sts., Bloomington, Ind. 47405. 117 pp. $25.00.
Author: David D. Newsom

On August 31, 1979, Senate Foreign Relations Committee Chairman Frank Church (D.-Idaho) alleged in a press conference that the Soviet Union had placed a "combat brigade" in Cuba. The allegation, and its subsequent mishandling by the Carter administration, may have been the major reason why the Senate failed to ratify the SALT II arms-limitation treaty.

Did this Soviet "combat brigade" exist? Newsom, U.S. under secretary of state at the time of the incident, reports that, far from being a novelty, a Soviet brigade-sized unit had been at the same site in Cuba since 1963. The "combat brigade" incident, he contends, provides a case study of "the serious dangers to a democracy of the casual use of intelligence."

A report mentioning the "brigade" appeared in the highly-classified *National Intelligence Daily*. This report, based on ambiguous intelligence collected by the National Security Agency, was swiftly leaked both to the press and to Senator Church. But the report extrapolated from faulty information; in fact, no one knew what the *function* of the 2,600-man unit was.

Both Sen. Church and Senator Richard Stone (D.-Fla.) began to use the "combat brigade" issue in fund-raising appeals to conservative constituents. Church even predicted that the brigade's presence would "sink" the proposed SALT II treaty.

Instead of correcting the report, President Carter, in a September 7 television address, said that U.S.-Soviet relations would be "adversely affected" if the brigade stayed in Cuba. The controversy then faded, despite congressional skepticism over Soviet assurances that the brigade was employed at a training center for Cuban forces.

The "combat brigade" affair, Newsom concludes, renewed doubts about the U.S. ability to verify SALT treaty compliance. It also intensified public mistrust of the Soviet Union at a critical moment in U.S.-Soviet relations.