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## EDITORIAL

### IMPERIAL WEEKEND

Far from settling the conflict between the U.S. government and the Nicaraguan revolution, the dangerous and destructive House vote for \$100 million in *contra* aid last week confirms that the issues of intervention and survival are still open, and that the stalemate in U.S. foreign policy that developed at the end of the Vietnam War still holds. A dozen members' votes for or against intervention will not deter the strategists of empire from their rambunctious course, nor clear the way for further conquest. We will hear more debates, endure more political manipulations and see more close votes before Nicaragua is crushed or the United States returns to the promises of its founding philosophy.

With half the Congress still committed to the destruction of independence in Nicaragua, it is hard to take seriously the celebrations of America's own independence on this "Liberty Weekend." The extravagant circus of events scheduled for New York Harbor, the parties, banquets and balls, the display of wealth and the show of patriotism have been concocted to express an imperial pride which contradicts the meaning and message of Independence Day. Judging from the preparations that have been made over the past two years, the spectacle looks to be more like a late Roman saturnalia or a decadent fete in Louis XIV's Versailles than a rededication of popular democracy and a remembrance of the immigrants' travail.

Before the next national patriotic extravaganza—the 200th anniversary of the Constitution, in 1987—it would be worthwhile to cut the hyperbole and return the cultural celebration to its democratic roots. The imperial style of the last summer Olympics, of recent presidential inaugurations and of the upcoming Liberty Weekend creates a solipsistic spirit of supremacy, which recognizes no one's independence but our own.

**REAGAN'S  
TERRORISM**  
Ramsey Clark

**GARLAND CASE**  
Kai Bird  
Max Holland

**STATUTE OF  
LIBERTIES**  
Marvin E.  
Frankel

**THE CRIME  
CONTROL ACT**  
Robert L.  
Weinberg

**MAO'S  
CHILDREN**  
Jerome B.  
Grieder

**LONDON  
THEATER**  
Moira Hodgson

## AMERICA MOVES RIGHT—I

### BIG BUSINESS DESERTS THE DEMOCRATS

THOMAS FERGUSON AND  
JOEL ROGERS

In a community as fragmented and decentralized as American big business, profound reversals of opinion usually require considerable time. Because such changes are as much processes as events, assigning a single date to them almost inevitably courts misunderstanding. If such an effort ever makes sense, however, it does for the terrible recession of the early 1970s. Lasting seventeen months, from November 1973 to March 1975, it was by far the longest and deepest economic downturn the United States had experienced since the Great Depression. It was then that the great developments that eventually drove American politics to the right became dramatically evident.

Deteriorating U.S. economic performance in an increasingly competitive and integrated world economy is the analytic key to the Democrats' decline and the Republicans' corresponding rise. In a variety of ways sagging growth and profits at home and increased competition abroad made the business community more cost-sensitive. This stiffened business opposition to expanded social spending and forced the Democrats to work within tighter fiscal constraints on their domestic programs. Pressures on the social side of the budget intensified as growing U.S. involvement in the international economy, and particularly in the Third World, increased demands within the business community for greater military spending. Moreover, these competing claims on the budget could not be easily reconciled simply by raising taxes, for as profit margins narrowed and competition from abroad

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# Big Business

*(Continued From Front Cover)*

made it more difficult for corporations to pass taxes along to consumers, much of the business community was mobilizing in support of further tax reductions. Over the course of the decade, the convergence of these different pressures and demands produced a mounting budget crisis in the United States, in effect forcing a choice between social and military spending.

Although it was highlighted by the 1973-75 recession, the economic deterioration that drove this process began before and continued after that catastrophic event. Profits of U.S. firms declined after 1965, and throughout the next fifteen years failed to regain the levels they'd reached in the early 1960s. Average annual growth in real gross national product also tumbled, from 4.1 percent between 1960 and 1973 to 2.3 percent between 1973 and 1980.

For workers, the picture became especially gloomy. Unemployment rose to 7 percent from 1975 to 1979, and by 1980 average real gross weekly earnings for private non-agricultural workers had fallen to their lowest level since 1962. Real median family income dropped 6 percent between 1973 and 1980.

The international picture looked even worse. In the immediate postwar period the United States stood unrivaled as the world's hegemonic economic power. But as the economies of Western Europe and Japan were rebuilt and as parts of the Third World were more tightly integrated into the world capitalist system, the relative position of the United States declined. Yet as it lost out in international competition, the United States became increasingly integrated into the world economy, a development that marked a virtual revolution in U.S. international economic relations. General measures of import and export flows can only suggest what may have been the single most important consequence of this combination of declining competitiveness and increasing U.S. integration in the world economy: most U.S. firms felt sharper competitive pressures from abroad, which in turn affected their own pricing policies. To a rapidly increasing degree, even big firms, including some of those that were maintaining market share, were operating in an environment in which prices were affected by international market forces beyond their immediate control. As a result, they tended to become "price takers" rather than "price makers," and were less capable of passing higher costs along to consumers.

As the extent of U.S. economic deterioration became

evident during the 1973-75 recession, business responded in predictable ways. Firms sought to cut costs, and although wages were already falling dramatically (indeed, so dramatically that many business spokespersons eventually conceded that wage costs were not the source of their continuing difficulties), for most companies the most natural cost to cut first was that of labor.

Virtually all of American business pushed for wage reductions in the 1970s, and the employer offensive against unions and unionization hurt a major investor in the Democratic Party. But the significance of the wage and unionization issues should not be overestimated in explaining America's political right turn. By hurting labor, the employer offensive marginally hurt the Democrats' capacity for mobilization; it also weakened the party's resistance to the conservative shift. But the decline in labor's power in the 1970s merely continued a downward slide apparent since at least the mid-1950s.

Considered from the standpoint of the distribution of business "investment" in the two parties, moreover, wage and labor issues look even less impressive as causal factors. The firms that provided the key support for the New Deal, and most of the major firms that backed John Kennedy and Lyndon Johnson, were heavily capital-intensive. Labor costs were thus relatively less important for them than they were for labor-intensive firms. The latter, as a practical matter, had little choice but to become rock-ribbed Republicans, and had made that choice long before. Thus, while the increased competitive pressures of the 1970s led almost every firm to be more attentive to labor costs and weighed especially heavily on labor-intensive firms already oriented toward the Republicans, the labor question alone probably turned comparatively little traditionally Democratic business support away from the party.

What labor costs could not do by themselves, however, other features of the new world political economy created by the 1973-75 recession could. Reeling from intense foreign competition, many multinational firms, including many in such capital-intensive sectors as pharmaceuticals, paper and petrochemicals, lashed back at what they claimed were unduly burdensome government regulations—in particular, environmental and worker-safety regulations. These regulated concerns were among those most likely to organize political action committees during the period. They also began major efforts to influence public opinion, other elites and the media. The pharmaceutical-related Smith Richardson Foundation, the petrochemical-related Sarah M. Scaife Foundation, the chemical-related John M. Olin Foundation and other lavishly financed institutions launched broad campaigns against government regulation and in support of "free enterprise."

Although a few liberal, multinationally oriented Republicans remained committed to environmental and other regulation, for both philosophical and financial reasons the Democrats had a stronger affinity for the environmentalists and other advocates of regulating business. Accordingly, the rising antiregulatory, pro-free enterprise movement weakened the Democratic base in the business

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community and in the country as a whole. In addition, a range of regulatory restrictions—regarding the environment, pharmaceuticals and dangerous technologies—specifically affected the Democrats' traditional base among firms doing large shares of business abroad. Particularly in the late 1970s, destructive competition among the major powers and the perils of unrestrained growth in the Third World prompted some limited multilateral efforts at environmental and other regulation: the negotiations over the Law of the Sea Treaty, for example, as well as the Carter Administration's tightened policies on nuclear proliferation, and the Food and Drug Administration's more aggressive enforcement policies. As a result, companies that were eager to sell untested drugs to the Third World or export nuclear technologies or engage in mammoth construction projects that degraded regional environments in other countries or offshore areas sometimes found government in the way. Strongly identified with the Democrats, and backed by many of the same sectors that promoted domestic environmental regulation (pre-eminently banking and other services), these international initiatives served to weaken backing for the party among its other multinational supporters.

The most devastating blows to the position of the Democrats in the business community, however, came not from domestic actors but from abroad. For the Democrats the dramatic rise in oil prices in 1973 had a number of immediate effects. One of these was obvious, if little noted. For more than a generation the biggest and most powerful of America's capital-intensive industries, the oil industry, had been heavily Democratic. In 1936, Franklin Roosevelt raised more money from Texas than from any other state, and the stories of Kennedy's and Johnson's close ties with oil are well known. In the twinkling of an eye, however, the Organization of Petroleum Exporting Countries did what a generation of Republicans and populist anti-oil Democrats were never able to do: split the oil companies from the Democrats.

As OPEC raised its prices, world oil and gas prices soared, and the basis for an almost uncountable number of residential and business choices changed drastically. Responding to frantic pleas from some regional Congressional delegations and many large industrial users, the government initially attempted to hold down domestic prices of oil and gas through a complex system of price controls. Not surprisingly, most oil and gas companies ardently supported lifting the controls.

Although the debate on energy prices created turbulence in both parties, it stirred especially vehement feelings in Democratic ranks. Because the lifting of controls struck so hard at labor, blacks and the poor, most Democrats simply could not support the move. As a consequence, and particularly after the strongly Democratic "Watergate Congress" of 1974 reduced the oil depletion allowance, virtually the entire oil industry began to go over to the Republicans.

By the mid-1970s, then, the basic forces that would eventually drive American politics to the right were already active. Real growth in the economy revived briefly in

1975-76, however, and the trade issue continued to divide business elites. Thus, despite the shift in business sentiment, there was still enough life in the New Deal coalition to elect one more Democrat. A last hurrah for the New Deal, Jimmy Carter's campaign for the presidency in 1976 received support from many multinational businessmen who still valued the Democrats' continuing commitment to internationalism and free trade. But almost as soon as Carter gained office, the tightrope the Democrats walked between elite demands and mass needs began to be stretched tighter and tighter. Ultimately it broke.

In the area of business regulation, for example, Carter started his term by appointing relatively liberal officials to a variety of regulatory agencies, fattening their budgets and moving aggressively on enforcement. For this the Administration was sharply attacked. Bowing to pressures, in early 1978 Carter issued an executive order mandating that agencies analyze the economic impact of proposed regulations, a signal that "excessive" regulation would no longer be tolerated. Review of regulatory agencies was also centralized in the White House-based Office of Science and Technology Policy, the Office of Management and Budget and, especially, the new Regulatory Analysis Review Group. Presiding over this regulatory review apparatus was Charles Schultze, then chair of Carter's Council of Economic Advisers, who was a prominent critic of the irrationality of "command and control" regulation and a major booster of market-based alternatives to it.

This effort at centralized control of agency rulings was advertised as merely a move to "rationalize" the process of regulation. Its clear effect, however, was to promote certain criteria of decision-making—primarily cost-benefit analyses of regulation which cloaked real reductions in regulation—while permitting discrete White House interventions in areas of particular concern to business. But as much as Carter sought to dampen regulatory zeal, for a growing portion of business he simply did not go far enough.

Carter's attempts to broker among different regional interests were similarly unsuccessful. Programs to aid the Democrats' traditional urban constituencies were squeezed out by budget constraints, and Carter alienated Western Democrats and Republicans by canceling nineteen water projects. Nor did the Administration's labor policies gain it many friends in business. Carter, in marked contrast to his successor, supported strong enforcement at the National Labor Relations Board; he also backed (tepidly, to be sure) the Labor Law Reform bill, proposed in 1977, favored by organized labor. Cases of unfair labor practices skyrocketed at the board, however, and Labor Law Reform drowned under a tidal wave of business opposition.

In late 1978 the bottom fell out of the Carter coalition. Concerned about both the pace of economic growth in the United States and the potential for a major downturn abroad, the Administration for two years had maintained a relatively easy monetary policy and allowed the exchange rate to fall. With the rate of unemployment dropping, though, imports rose, and in 1978 wage gains again briefly pulled ahead of productivity gains. Anxiety about the dollar

grew as the United States' inflation rate raced ahead of those of its allies. In October the effects of the Administration's earlier reluctance to rein in the money supply became dramatically visible. A giant run on the dollar developed.

Forced at last to choose between his constituencies, Carter did not hesitate. To restore confidence in the dollar, he promised in late October to reduce the budget deficit, cut government hiring and eliminate additional regulations. He also announced a series of wage and price standards, in another bid to control inflation. World financial markets responded negatively to this program. In 1979, compounding Carter's problems, came the oil shortage, rising inflation and another run on the dollar that summer. In July, Carter acted, ordering a complex rearrangement of his Cabinet and other top positions in the Administration. He dismissed liberal Health, Education and Welfare Secretary Joseph Califano and Treasury Secretary Michael Blumenthal; he then moved G. William Miller, chair of the Federal Reserve Board, to Blumenthal's old spot. He appointed Paul Volcker, a former employee of Chase Manhattan Bank, to replace Miller at the Fed. Volcker immediately raised interest rates.

From that point, everything went from bad to worse. Another dollar crisis led the Fed to pursue even more draconian monetary policies, and interest rates approached lunar levels. Real growth in the economy ceased altogether, and for a couple of quarters was even negative. Almost simultaneously, the international economy nose-dived. Adding to the pressures for increased military spending, the U.S. Embassy was seized in Iran and, at the end of the year, the Russians invaded Afghanistan.

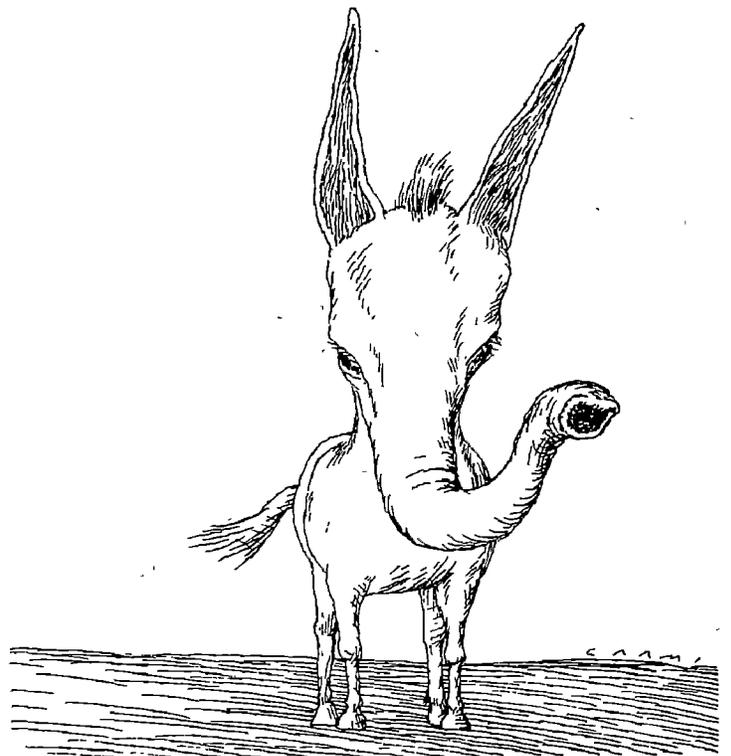
But the economic collapse gave Carter little room to maneuver. By early 1980, with Democratic investment bankers holding late-night meetings with the party's Congressional leadership to demand budget cuts, the head of the party of Roosevelt, Truman, Kennedy and Johnson was forced to do the unthinkable. Only months before an election, he slashed funds for the poor, blacks and the cities and further tightened the money supply. At the same time, Carter made clear his commitment to massive (5 percent in real terms) annual increases in military outlays.

Seeking to hedge his bets during the 1980 campaign, Carter shaded both the military buildup and the domestic cuts. As a consequence, he was attacked within the party from both his left, by Senator Edward Kennedy, and his right, by Democrats involved with the Committee on the Present Danger. Although he managed to secure renomination after a difficult and exceptionally bitter fight, his political fate was sealed.

As Jimmy Carter struggled with the new conundrums of Democratic leadership, Ronald Reagan was by slow degrees moving from the far right to the center right of the American political universe. Originally supported by ultra-conservative entrepreneurs in California and elsewhere, some large fortunes inveterately hostile to the New Deal, parts of the armaments industry, many small businesses and protectionist concerns in textiles and independent oil, Reagan had failed to enlist many top business figures in sup-

port of his abortive 1976 run for the Republican nomination against Gerald Ford. But the rightward drift of the business community on taxes, defense, the environment and labor gradually added to his original core, and by 1980 he was willing to modify policy views that stood in the way of his acceptance by the multinationals, and particularly by what remained of the G.O.P.'s liberal Eastern establishment. Most important, Reagan sought a compromise on the G.O.P.'s most divisive issue—international trade. As many of Reagan's original core supporters watched with mounting apprehension, in the spring of 1980 his campaign slowly struck an accommodation with the internationalist bloc. Eventually, it settled on a plan to initiate a broad new round of trade talks, but only after an indefinite number of years in which the Republican Administration would attempt to reshape the U.S. and world economies through a sweeping series of unilateral actions, involving major changes in budgets, taxes and interest rates.

By putting off a showdown on trade into the indefinite future, the Reagan campaign opened the way for virtually all of American business to mass behind its candidate. And while occasional flaps about the Reagan program and personality persisted to the end, most of American business did gather round, as Reagan promised simultaneously to cut taxes, balance the budget, preserve essential social spending and vastly increase military outlays. Business groups' and the right's contributions to the Reagan campaign, the G.O.P. and "independent" political action committees that favored the Republicans broke all records. As all but a few investment bankers and a handful of multinational business figures deserted the hapless President, the West and even much of the East deserted the Democrats. The Republicans came to power. □



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