

Reaganomics: Its effect on the U.S. economy

When Ronald Reagan took office in January of 1981 he put into effect four basic units of his economic plan: a slowdown in monetary growth which has produced high interest rates; massive tax cuts for large corporations and the wealthy; budget cuts primarily aimed at social programs; and a rollback in regulations protecting workers, consumers and the environment.

Since July of 1981 the economy has fallen into a steep decline. Between July of 1981 and July of 1982, official unemployment rates rose from 7.2 per cent to 9.8 per cent, the highest level in 40 years. Another 1.5 million gave up looking for work and 5.7 million were forced to work part time. Reaganism resulted in 17.6 million Americans suffering job or income loss in July. Over the period of a year, one-third of the workers are unemployed.

The unemployment rate among adult men was 8.8 in July, the highest since the Great Depression. Employment of adult males is traditionally the most stable of the work force, yet since July of 1981 60 per cent of the increased unemployment has been adult men. Neely one-third of the unemployed are adult males. Women have an unemployment rate of 8.4 per cent; black Americans 18.5 per cent; Hispanics 13.5 per cent; black teenagers, 50 per cent.

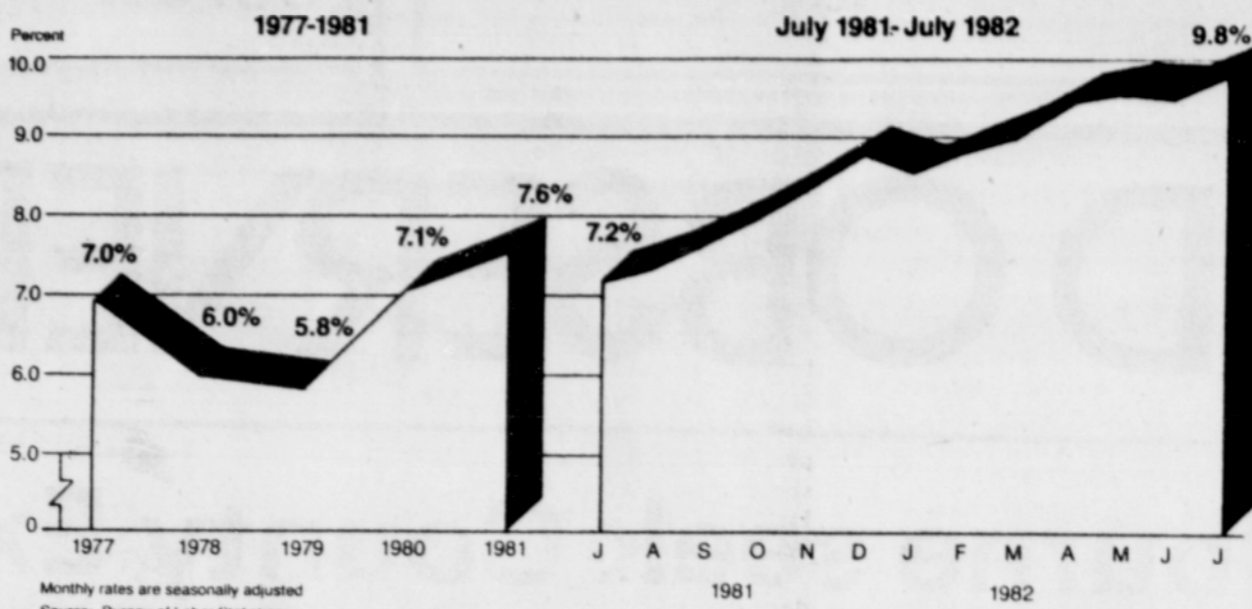
The effects of the recession are being felt throughout the economy. The auto, steel, and construction industries, which directly and indirectly account for one-third of the jobs in the country, have been particularly hard hit. Employment in manufacturing has declined by more than 1.5 million since July 1981. As of July 1982, 17 states and Washington, D.C., had unemployment rates over 10 per cent, compared to one state plus Washington, D.C. one year ago.

According to the administration, the tax give-aways to big business and the wealthy were to stimulate job-producing investment. Corporate income taxes are one-third lower than a year ago, yet business investment declined by 3.3 per cent. Industrial production declined by 10 per cent, with more than 30 per cent of the industrial capacity idle.

Reagan's high interest rate policy has had a devastating effect on the housing, construction, automobile, and farming industries and local and state governments. Home foreclosures and business bankruptcies are at an all-time high. Unemployment in manufacturing hit 12.0 per cent in July 1982; unemployment in durables—autos, steel, machinery, etc.—was at 12.7 per cent. Construction unemployment was at 20.3 per cent; retail trade at 10.5 per cent. The high unemployment rate among agricultural wage and salaried workers of 13.8 per cent indicates a deep recession in the agricultural sector.

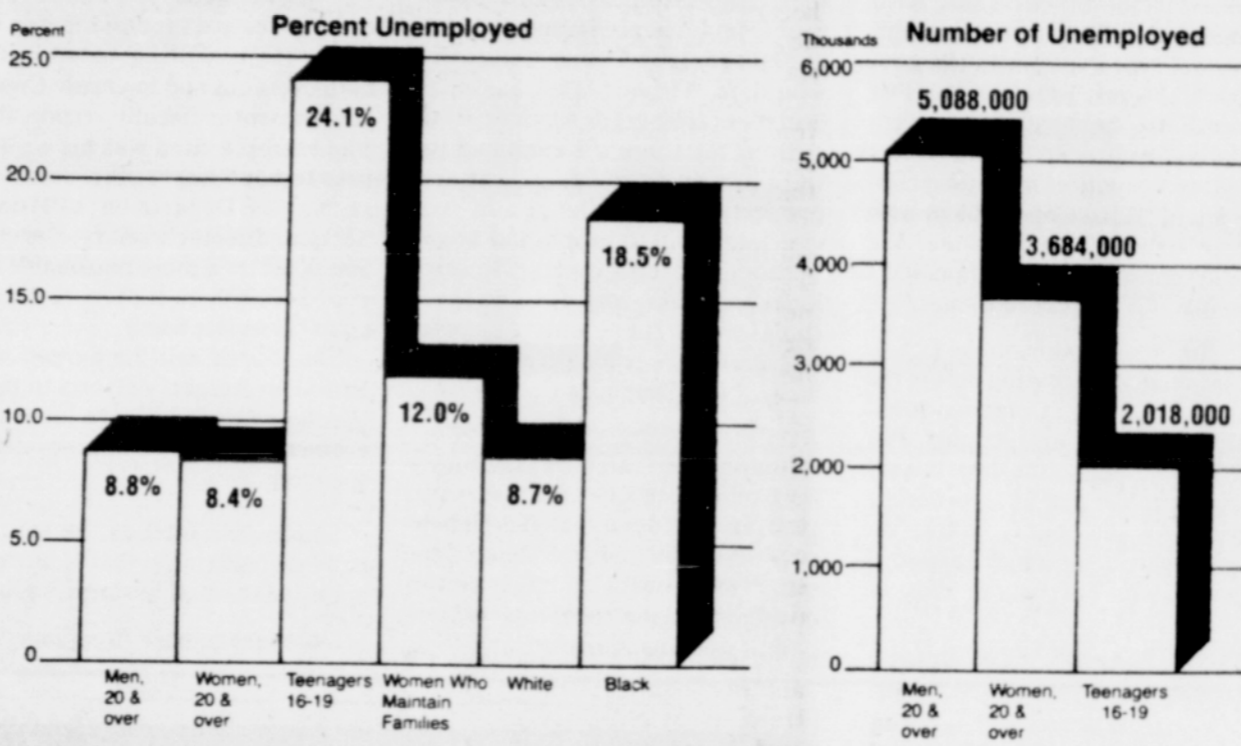
As high unemployment continues, more people use up their unem-

Unemployment, 1977-July 1982



Monthly rates are seasonally adjusted
Source: Bureau of Labor Statistics

Who Are The Unemployed?—July 1982



Source: Employment Situation, July 1982

employment benefits and are without resources. Between July 1981 and June of 1982, 3.3 million workers used up their regular unemployment benefits. The Reagan budget cuts removed much of the "extended benefits" usually available in regions with high unemployment. During the 1974-1975 recession benefits were extended to 65 weeks. In August Congress approved an extension to a maximum of 45 weeks, and these benefits are taxable.

During April, May and June, 500,000 people per month exhausted their regular or extended benefits. An estimated 4 million people will exhaust their benefits in 1982.

Buying power

The buying power of U.S. workers declined in 1982 and remains below levels of the late 1970s. While

gross wages have increased, the buying power of those wages decreased by 1.8 per cent. Reduced buying power contributes to the recession by reducing sales and therefore, jobs.

Poverty

The high unemployment is forcing more Americans into poverty. The numbers of people in poverty and the poverty-rate are highest since the mid '60s. The percentage of people living in poverty rose from 13.2 per cent in 1980 to 14.0 per cent in 1981 and will increase substantially by the end of 1982. This is the first sustained increase in poverty since the late '50s.

More than one-third of blacks and women who maintain families live in poverty. Twenty per cent of children live in poverty. The number

of married couples who are poor increased by 10 per cent during Reagan's first year in office.

Interest rates

During recessions interest rates usually decline to encourage economic activity. During this recession interest rates have been kept at near historic highs. Mortgage interest rates have remained at levels that discourage housing construction and sales. During Reagan's administration the prime rate—the rate large banks charge their largest corporate customers—never dropped below 15 per cent until mid-August. In 1981 it averaged 19 per cent and in 1982, 16 per cent.

The reason for high interest rates is the loss of revenue caused by Reagan's tax cuts to the wealthy. As a result of these cuts, the deficit and Treasury's borrowing, have increased. At the same time the Federal Reserve, with administration approval, is restricting the availability of funds in an attempt to achieve a slower rate of monetary growth.

This policy has increased the imbalance in distribution of wealth. In 1974 66 per cent of total personal income of Americans was from wages and 9.6 per cent from interest on investments. Now 61 per cent is wages and 14.7 per cent is interest. Since interest is usually paid to persons in upper income brackets, this indicates a shift of wealth to the wealthy.

Business

Reagan's tax benefits were supposed to help business through increased investment, but continuing unemployment and high interest rates are forcing business failures at an unprecedented rate. Because small businesses pay the highest interest rates on less favorable terms, and offer higher tax rates, they are particularly vulnerable. Several large firms have declared bankruptcy in 1982: Wickes Company, building supplies; Braniff Airlines; A.M. International (formerly Addressograph-Multigraph).

More than 10 per cent of savings and loan corporations suffered loss-

es because of the high interest rates they are forced to pay on savings. By August of this year there had been 27 bank closings.

Mortgage rates are expected to remain high under the double squeeze of the tax-cut induced deficit and slow monetary growth. Reagan vetoed a three-year housing program that would have provided an estimated 200,000 new homes and has mounted a campaign to eliminate subsidized housing construction.

Inflation persists, with the Consumer Price Index rising .09 per cent in May and 1.0 per cent in June. The cost of housing rose 7.5 per cent in the first half of 1982; food 5.5 per cent; medical care 10.8 per cent.

The Reagan-induced recession has not produced the results intended—the elimination of inflation—but has devastated the nation's economy and standard of living.

Gross National Product

The gross national product is the dollar measure of the nation's output of goods and services. The GNP, adjusted for inflation, fell at an annual rate of 5.3 per cent in the last quarter of 1981 and 5.1 in the first quarter of 1982. The annual rate in 1982 was less than in 1979.

Corporate before-tax profits have declined the first time since World War II, dropping 33 per cent between June 1, 1982 and June 30, 1982. Corporate taxes have declined by almost 41 per cent, the result of lower profits and Reagan's tax cuts. Corporate expenditures for new plants and equipment have dropped. Not only do corporations have to contend with cuts in sales and high interest on borrowed money, but there is no guarantee that the savings made by tax cuts will be re-invested. It can be used to pay higher dividends to stockholders, speculation, mergers, relocations, or investment.

Editor's note: Information and illustrations for the above article are from the AFL-CIO American Federationist, Aug. 28, 1982.]

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