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The American Economy in 1994: Awaiting a New Policy Paradigm

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Italy may be taking on a leading role in the evolution of advanced capitalism as a result of the election, although I doubt it.

The failure of Thatcher and Reagan

T & R aimed to do away with the welfare state:
They did not succeed.
The welfare state bent but did not break.
The American and World Economy were saved from a big depression in 1989-90 by

a. government deficits

b. massive government refinancing of savings and commercial banks.

Explanation of a.

Profits = Investment + Government Deficit - Balance of Trade Deficit

Explanation of b.

In 1979 Volcker instituted a regime of "practical monetarism" as the Federal Reserves policy guide. This led to very high interest rates.

The Latin American economies, especially Mexico and Brazil were one set of victims of these interest rates. The Latin Americans speak of a lost decade of growth.

Ever since the 1930's the standard home mortgage in the United States was a fixed monthly payment, fully amortized, long term (20 or more years) instrument.
The Volcker interest rates led to a sharp fall in their value and as they had to meet the market on their deposit rates they ran enourmous losses. In order to keep them going the authorities largely ignored their negative net

worth. They were kept open because the government guaranteed their deposits.

The Reagan government after 1980 not only kept them open but allowed the S&L's to expand their assets to include land development and even junk bonds. By 1989 many of the S&L's were in such bad condition that the insurance fund guaranteeing deposits ran out of assets. A massive amount of Treasury funds went into fulfilling the deposit guarantee. Many Texas, California and New England banks became bankrupt. Citibank was placed under close Comptroller of the Currency supervision.

If the government had not intervened strongly on the two fronts we would have had a great depression.
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Even now Clayton cannot get away from the armament program put in place by Reagan.

The groping of Clinton: To adapt the big government welfare state to the realities of this world.

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A natural level of protection exists in transportation and communication costs and in the costs in terms of uncertainty in dealing with customers in far and strange countries. This natural level was very large in 1900 compared to 1950 and is now virtually approaching zero.

Each country mandates costs upon its domestic producers. This level differs from country to country.

The need to protect domestic jobs in the face of the radical decrease in this natural llevel of protection.

The vat as the equivalent of a tariff.

The United States has allocated direct consumption taxes to the State governments.
The Federal Government will I believe be forced into the adoption of a tariff for revenue, not a protective tariff where the cross the board duties are some 10% or so of the landed price.

(Duties at such a level will provide the revenues which enables the United states to markedly lower its deficit even

It now looks as if Clinton will get enough of what he wants in universal health care to make it a great victory.

The last days of the Reagan Bush years saw a final successs of the Roosevelt structure in that deposit insurance offset the negative net worth of savings banks and commercial banks even as the deficits of big government sustained profits.

The sustaining of profits meant that the depressed economic conditions were self limiting.

Being satisfied with half a loaf