THE AMERICAN ECONOMIC POLICY ENVIRONMENT OF THE 1990s:

Origins, Consequences, and Legacies

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One phrase perhaps best summarizes the origins, consequences, and legacies of the economic policy environment of recent decades tax cuts. The passion for tax cuts as a kind of "Holy Grail" of a "new classical" economics was so intense that even the major political parties, toward the end of Ronald Reagan's second presidential term, could find little about which to disagree on that score. All that was left was political pandering to targeted constituencies. For the Republicans that meant emphasizing the usefulness of tax reduction for upper-income groups and the broadening of the argument to include proposals for reductions in the prevailing levy on capital gains; for the Democrats the riposte was to focus on what was beguilingly labeled "middle class tax relief." Both parties flirted with radical suggestions to eliminate the entire structure of income taxation itself -- usually toying with half-baked ideas concerning the implementation of a single (or "flat") rate income tax or a national sales (or "value added") tax. With genuine justification, an observer new to the scene might have concluded, during the 1988 presidential campaign especially, that John Maynard Keynes (not to mention his like-minded colleagues and students) had never published a word.[1]

Like most nostrums, tax reduction created more problems than it solved. Federal

spending, whether engrossed by military initiatives such as those undertaken during the Reagan presidency, or propelled by transfer-payment programs long on the books, rose in both absolute terms and on a per-capita basis throughout the 1980s and early 1990s. A rising national debt only seemed to make more obvious the failures (and the failings) of supply-side economics and its attendant pieties. It was hardly surprising, therefore, that conservatives increasingly focused their attention on disbursements themselves. Within this context arose a great offensive against economic statecraft, the continuation of an attack originally launched by the Reagan tax cuts -- the proposal for a balanced budget amendment to the United States Constitution.[2]

A hardy perennial in the garden of conservative economic ideas, the balanced budget amendment became decidedly fashionable in 1985 when the National Governors Association passed a resolution favoring its adoption. Ever since, it has been the catalyst for a great deal of campaign posing and a consistent addition to the list of bills pending before each Congress. While it has consistently failed of passage, it remains a talisman of the Right, appropriately so given the fact that it would, by statute, eliminate the essential instrument of Keynesian fiscal policy from use by the Treasury, a kind of final nail in the Keynesian coffin. No wonder then that it has been and remains an object of great admiration among conservatives, equally loathsome to liberals. Far more striking than the obvious reactions it has provoked across the political spectrum have been, like the debate around the tax cut strategies of the 1980s and 1990s, the muddled claims profered in its defense -- arguments that have made and that continue to make a mockery of the ideal of professionalized economic expertise in service to the state.[3]

Balanced budget advocates throughout the 1980s and 1990s utilized particular conceptions of government accounting practices, standards of measurement of debt burdens, assumptions regarding mechanisms of debt liquidation, and notions of state finance either completely inaccurate or thoughtless. In response, both professional economists and liberal protagonists were strikingly timid and, often times, ineffective. Ignored in almost every discussion of the balanced budget idea was the peculiar design of the national accounts. Included in every

annual budget in Washington were (and are) capital expenditures; separating these from operating expenses, save for depreciation allotments, had always been the standard practice of business enterprise. Doing so would, in the federal case, have generally reduced deficit levels considerably. There were, in fact, even beyond the relatively simple matter of balance sheet preparation, more trenchant criticisms to be made of deficit and debt measurement in the public sector.[4]

For fairly obvious political reasons, critics of Keynesian-style spending techniques focused their attacks on absolute levels of indebtedness. Large numbers, especially those rendered in red, were impressive instruments of persuasion in the dismantling of the mixed economy. Yet as any banker knew, let alone economic specialists, debt burden could only be meaningfully evaluated with reference to the ultimate ability to pay. In this context, the national debt, representing a claim on the wealth and income streams of future generations, necessarily had to be measured with reference to the gross domestic product (GDP) itself. As a share of annual income, debt reveals its true lading. By this measure, American public finance, while obviously deranged in the wake of the Vietnam era, had since the early 1980s shown tangible improvement -- not surprisingly because the ratio of annual deficits to the GDP had steadily fallen from a high of 6.3% in 1983 to 1.4% in 1996. Looking at the debt as a whole, in 1995 the national shortfall stood at $3.6 trillion, just over %50 of a $7 trillion GDP. This compared quite favorable with a debt-GDP proportion of over %100 at the end of World War II -- interestingly enough, the beginning of a period of growth and expansion in the national economy that was historically unprecedented. In this context, the central target variable would link any rate of growth in the debt to the rate of growth of the macroëconomy -- a notion altogether obscured in the public debates surrounding a balanced budget amendment.

The sheer obtuseness of the public discussions concerning government finance in the late 1980s and early 1990s prompted a fair number of professional economists to act. In January of 1997, the late James Tobin (then emeritus at Yale University and a Nobel Laureate) led an effort

to petition Congress on the matter. Calling the proposed balanced budget amendment "unsound and unnecessary," the document was ultimately signed by 1200 colleagues (11 of them Nobel Memorial Prize winners). At the end of that month, it was presented on Capitol Hill. Above and beyond the misunderstandings the petition sought to expose, it also expressed the conviction that "[t]he Constitution [wa]s not the place to put specific economic policy." Reaction to this professional foray into the realm of public debate was inconsequential. The signatories of the "Economists' Statement Opposing the Balanced Budget Amendment" found themselves prophets with neither honor nor influence.

Yet the debate over the national debt held within it an important if fairly unwelcome lesson for social scientists who coveted a place in public affairs. Instruments of economic policy, most especially those having to do with government finance, were clearly first and foremost political creations. No public outcry, for example, shook Washington in the Fall of 1945 when the financial obligations incurred in the wake of four years of international conflict assumed dimensions that, in the short run, altogether dwarfed the productive capacity of the nation's markets. A remarkable degree of political solidarity concerning war aims had prevented it. Similarly, throughout the 1980s and 1990s, it was politics rather than economics that not only framed policy outcomes but, more to the point, set the terms of public debate. If economists found themselves demoralized and confused by the indifference that met their arguments and prognostications, they might have been forgiven their lament. Theirs was a discipline, the product of a century of intellectual and social evolution, that fostered in its practitioners the notion that they could decisively separate ideology from analysis. It was, as a result, in matters of national policy made virtually superfluous.

In point of fact, the transformation of the nation's political landscape in the wake of the Vietnam era had subverted the very foundations of the liberalism that had made sense out of the New Economics. An emphasis on political economic issues that had framed the high tide of activist government since the New Deal had provided a community of professionals with both the

means and the ends to deploy their expertise. So soon as social issues concerning opportunity and equality occupied center stage, most vividly in the formulation of a "War on Poverty," American liberalism ran headlong into the abiding national puzzle of race and ethnicity. A backlash was the inevitable result, one that shifted a dynamic emphasis on productivity and plenty during the 1950s and 1960s to a static refrain concerning the costs and benefits, the winners and losers in market outcomes during the 1980s and 1990s. So dependent had the promise of liberalism been upon sustained growth as a vehicle of redistributive betterment and justice that the first signs of macroëconomic instability robbed it of its voice and its authority. Indeed, by the last years of the century, the New Deal order was dead and with it the hopes and achievements of the New Economics.[5]

Perhaps it was predictable, given the rightward turn of American politics in the late twentieth century, that professional economics would itself regress and retrench. A kind of naïevté coupled with an unbridled enthusiasm had propelled the discipline's leading lights to make claims on its behalf it could not redeem. Once events, and the ideological shifts they provoked, overtook the statecraft economists had so painstakingly fashioned, their flanks were wholly exposed to an unrelenting and unparalleled assault. Reversion to classical principles, a rejection of heterodox notions, an insistence on a professional deportment unable and unwilling to join with the ideological issues in dispute, and a contentment with a return to scholarly detachment, were understandable if pathetically timid reactions.[6]

It has long been a conviction of those who study the history of the sciences that moribund intellectual traditions may only be overcome by the effective articulation of alternatives. For modern American economics the possibilities for such a restructuring were by the late 1990s, precisely because of the effectiveness of the professionalizing processes that had obtained since the turn of the century, few and far between. A select few at leading colleges and universities continued to wield enormous influence over the distribution of research grants, their own ranks replenished from a hiring process disproportionately focused on the graduates of a small number

of highly regarded training programs, including their own. Any examination of publication practices in the field would serve to demonstrate as well that the dissemination of research results remained powerfully concentrated in the hands of an elite few. It is a striking yet hardly surprising finding that, at the height of the economic instability occasioned by the Vietnam War, the OPEC oil price shocks, and the downward trends in productivity enhancement experienced throughout the 1970s, alumni of only seven graduate programs in the discipline authored well over half the scholarly articles published in the nation's three leading economics journals. Such disciplinary inbreeding was hardly conducive to the elaboration of alternative paradigms.[7]Parsons, The Power of the Financial Press: Journalism and Economic Opinion in Britain and America (New Brunswick: Rutgers University Press, 1990), and Jean Stefancic, Richard Delgado, No Mercy: How Conservative Think Tanks and Foundations Changed America's Social Agenda (Philadelphia: Temple University Press, 1996). Also see Robert Parry, "Who Buys the Right?," The Nation (18 November 1996), 5-6. Above and beyond the power of policy pundits and the media, there is also the puzzle of how individuals gain access to the necessary information and skills to formulate appropriate and sophisticated positions on economic questions -- an issue made all the more complex by the fact that such questions often require quantitative skills sorely lacking in large proportions of the electorate. See my "Numerable Knowledge and its Discontents," Reviews in American History 18 (1990), 151-64.

If, by the 1990s, economics was a social scientific discipline fast retreating from a public rôle it had sought for decades, it was clearly not the case that the influence of all of its practitioners was on the wane. Supply-side theorists, in ways far out of proportion with their achievements, continued to enjoy a prominence and an authority in economic debate that was virtually hegemonic. Anti-Keynesian rhetoric became ever more fashionable; calls for parsimony in governmental expenditure policy, often phrased in ways approximating a morality play, went virtually unchallenged. No better signal of the sea-change that had taken place could be found than the news, broadcast in the Fall of 1997, that a young Harvard University economics

professor, N. Gregory Mankiw, would receive a $1.25 million advance from a major textbook publisher to produce a new volume in which Keynes' name barely appeared once. As advance copies of the text made their way into the hands of reviewers, even Business Week magazine could express alarm at the widening popularity of what it derisively called "Feel-Good Economics."[8]

There was, of course, a genuine logic to the whole process. Linked with the marvelously abstract claims of rational expectations theory, supply-side economics had succeeded in making a compelling case for the ineffectiveness of national policies that sought to intervene in the nation's markets. Indeed, the argument had been taken a step further by claiming that, even if the government sought to manipulate economic outcomes, it would only succeed in generating perverse results: stimulatory spending would ultimately reduce consumption, steps to increase employment would actually generate more idleness, aggregate policies to enhance technological change and productivity would in the end reduce the total supply of goods and services. Thus situated within the analytical domain of supply-side theory, economic statecraft was stymied. Why do anything when activism brought no appreciable benefits? A new laissez-faire doctrine found the largest possible audience, and the hope for a reörientation of economic analysis that would have made sense of the disturbing events of the 1970s and 1980s, while remaining true to a commitment that had characterized the profession since the 1930s, went unrequited.[9]theory cannot explain what is happening," he wrote, "and therefore cannot supply the prescription for dealing with it. What is needed is reorientation of thinking as drastic as the shift from Ptolemaic to Copernican[.]" Given his own scholarly record and public policy career, Means clearly did not have supply-side theory in mind when he wrote these words. Indeed, he closed his letter to Goodwin by reflecting that "for more than 40 years, [he] ha[d] been trying to play the part of an economic Copernicus." See Means to Goodwin, 18 January 1975; Papers of Gardiner Means [Franklin D. Roosevelt Library (Hyde Park, New York)] - Box 68 (Folder: "Correspondence: G").

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Over three decades ago, the eminent historian William Appleman Williams, reflecting upon the entire span of the nation's past, noted that policy appeals based on the principle of laissez-faire were, more often than not, actually premised on a slightly different conviction -- that of laissez-nous-faire. Arguments militating in favor of reduced government involvement in economic life usually reduced themselves to strategies, on the part of particular elites, to secure opportunities with which to exercise greater control over resources, the workforce, and households. Williams' thesis had particular relevance with respect to the transformations in economic thinking that prevailed in the United States by the 1990s. As the Keynesian consensus of the postwar era dissolved, and as it was replaced by an increasingly detached social theory that actively condemned governmental activism in the marketplace, the economics profession became less and less an engaged social scientific community in the public service and more and more a mouthpiece for a particular, interest-based agenda. No longer ministers to statist power, many economists reinvented themselves as privy councilors to private wealth.[10]

Since the economic turmoil of the early 1970s, indicting government for the nation's material woes had become an ever more expansive enterprise. Dismantling the Keynesian apparatus of the federal government had been only part of this project. Eager to ferret out any plausible cause of inefficiency and inflated costs in the national economy, analysts, political leaders, policy advocates, and pundits became increasingly preöccupied with the perceived burdens of governmental regulation in the marketplace. Deconstructing a variety of federal statutes and agencies, along the lines specified by an offensive against such statist intervention in economic affairs, became a significant parallel strategy in the eradication of Keynesian practice. Proponents of what was dubbed "privatization" argued that such reforms in the ways government did business would lead to greater efficiency in the allocation of scarce resources. By leaving decisions to businesspeople and other expertly trained individuals in the private sector, it was claimed, an appropriate system of incentives and capabilities would yield a more optimal

distribution of services and a more inspired utilization of scarce public monies.[11]

Deregulation had a bipartisan gestation, its birth facilitated by the anti-taxation attitudes fostered during the economic uncertainties of the 1970s. It was Jimmy Carter's presidential administration, building upon some initial and tentative steps taken by Gerald Ford's White House, that launched the first systematic efforts to reassess and ultimately eliminate to whatever extent possible federal oversight in the finance, telecommunications, and transportation sectors. The initial forays were predominantly focused in the aviation industry, culminating in the closure of the Civil Aeronautics Administration when Congress passed the 1978 Airline Deregulation Act. Fast on the heels of that landmark legislative decision came the 1982 settlement between the Antitrust Division of the Department of Justice and the American Telephone and Telegraph Corporation (AT&T), an agreement that began the systematic deregulation of the nation's telecommunications infrastructure. Shortly thereafter, the Reagan administration began reconfiguring the government's rôle in the nation's banking industry, an effort that had profound consequences in the savings-and-loan sector for years to come. By the time George H.W. Bush took office, the momentum of the deregulatory process had grown very large indeed. Declaring a moratorium on all new federal regulations early in 1992, the President also asked his deputy, Vice President Dan Quayle, to chair a new Council on Competitiveness as an informal "super-arbiter" of national regulatory issues.[12]

While the Quayle Council lasted only a year, liquidated in its infancy by Democrat Bill Clinton in one of his first acts as President, the political movement of which it stood as a striking exemplar continued. So irresisistible was the appeal of deregulation rhetoric that policy initiatives were proposed and often enacted without due consideration of either their justification or their consequences. Increasingly, mainstream American economists made themselves part of this process -- often eager to formulate techniques for its implementation, rarely willing to confront many baseless assertions deployed on its behalf. Nowhere was this strange reality made more manifest than in the transformation of the regulatory environment within which the nation's

banking industry did its work.

Beginning with the Ford and Carter presidencies, operational rules for banks, brokerage houses, and savings and loan institutions were relaxed. Among brokerages, deregulation resulted in a proliferation of discount offices that allowed investors to avoid the expenses and commissions associated with more traditional houses. Among banks, the elimination of many restrictions on the geographic range of their operations stimulated competitive entry throughout many states -- although by the early 1990s a reconcentration of assets through bank mergers began in earnest. In the savings and loan industry, however, deregulation contributed to a crisis of mammoth proportions.[13]

It was in the period before deregulation, when rising interest rates and the proliferation of money market investment funds made it increasingly difficult for savings banks to offer depositors competitive rates of return, that the savings and loan catastrophe had its roots. As the rates paid on such alternative investments as money market funds dramatically increased (in no small measure pushed upward by the process of inflation that began in 1973), "Regulation Q," a federal rule limiting the maximum rate of interest that could be paid on savings and other demand deposits, made it virtually impossible for savings and loan institutions (S&Ls) to attract funds. Ironically, interest rate regulation had begun in 1933 when the Federal Reserve System implemented the first version of Regulation Q. The goal had been precisely to prevent the competitive shopping around for interest returns and to encourage depositors to place their funds in institutions selected on the basis of reputations for solvency and safety.

Banking industry lobbyists, not surprisingly, wished to eliminate Regulation Q. In 1980, the Carter administration, ostensibly seeking to aid a troubled industry, eased interest rate restrictions by means of the Depository Institutions Deregulation and Monetary Control Act (known, by insiders, as the "Diddymac"). The new law abolished geographic restrictions on the investment activities of S&Ls, thereby bringing a national market within the purview of individual institutions that had operated locally for decades. It also provided for deposit insurance of up to

$100,000 for every savings account in the system -- tendered by the Federal Savings and Loan Insurance Corporation (FSLIC), a derivative of the Federal Deposit Insurance Corporation (FDIC). S&Ls were no longer tied to deposits generated in their immediate communities but rather could attract deposits from far away by offering through brokers the high rates of interest made possible by deregulation itself.

Geographic deregulation created a national market in unregulated savings deposits -- as, for the first time, S&Ls were allowed to offer account and credit privileges and other banking services nationwide. FSLIC guarantees simultaneously created a false sense of security within the S&L industry itself. The thrifts responded by investing in speculative commercial ventures in the hopes of shoring up their profitability -- profitability that had been compromised for over a decade by Regulation Q. Thrifts' net income, as a share of their total assets, had averaged only 0.5% throughout the late 1970s; it fell to 0.1% by 1980 and turned negative in 1981 and 1982. Home mortgage business, the mainstay of the industry since the Great Depression, dropped off. Indeed, it became increasingly (and uncharacteristically) common for the S&Ls to provide full financing for a broad spectrum of investments with little or no down payment.[14]

A further difficulty emerged in this reformed environment. Thrifts found that the interest they earned on traditional mortgages provided insufficient funds to pay the higher interest rates they were now allowed to offer on an array of financial instruments. Some institutions thus began to use up their own liquid reserves to make good the difference. By 1982, fifty thrifts nationwide failed -- a rate unprecedented since World War II. Congress, reflecting bipartian concern for the S&L sector, responded with another revision of law. The Garn-St. Germain Bill, signed into law by President Ronald Reagan in 1982, having gone "through Congress like a dose of salts, with virtually no hearings in either Senate or House Banking committees," further loosened the restrictions on the kinds of investments S&Ls could make. The Federal Home Loan Bank Board, later reconstituted as the Office of Thrift Supervision, also participated in this stragtegy by reducing, virtually to zero, the minimum amount of capital that a bank was required to have on

hand to underwrite particular investments.[15]

In the savings and loan industry, the deregulation of the 1970s and 1980s generated hasty, at times foolish, and even corrupt decisionmaking. Operating in unrestricted and almost unknown territory, S&Ls became involed in questionable investment schemes, many of them unsecured, some very risky. Moreover, in the late 1980s, as the real estate market softened (especially in the South and the Southwest due to troubles in the oil, mining, and aviation industries), thrifts found even their traditional avenues of investment painfully encumbered. Thus began a series of savings and loan failures that had no equal since the 1930s. Unable to make good their obligations to depositors, S&Ls exhausted their deposit insurance and approached the Congress for relief. The full dimensions of the "bailout" ultimately necessary to restore the industry to firm footing were nothing short of mind-boggling.[16]

Deregulation, at least in the financial sector, thus failed its proponents. Undertaken at the behest of an energetic and vocal academic and political constituency, it created vast costs in addition to its purported benefits. Regulatory reform, in this sense, responded far less to the lobbying of public-interest groups than to the efforts of cadres of new entrepreneurs (such as Carl Icahn in aviation, and Charles Keating and Michael Milken in finance) to gain access to particular markets and to enjoy and exploit new levels of statist influence and visibility. There were no mass demonstrations on Pennsylvania Avenue, Northwest to deregulate major sectors of American industry. In the hands of a smaller cadre, deregulation became an essential part of the doctrine of laissez-nous-faire.

The savings-and-loan debacle did nothing to stem the ardor of public officials for continued deregulation of the banking industry as a whole. By the Spring of 1997, Clinton administration specialists prepared legislative proposals to allow insurance companies, banks, and securities firms to do business in one another's markets. A practice long banned by the 1933 Glass-Steagall Act which had been fashioned in response to the reckless management of investment funds that had helped make the crash of 1929 a catastrophe, the intermingling of

banking and other financial operations had remained under close federal scrutiny for decades.

It was, to be sure, not simply the financial sector in which the consequences of deregulation expressed themselves in such negative ways -- nor where the vast majority of the economics profession continued to stand mute, except in those contexts in which it could facilitate the deregulatory process itself. In the airline industry, where deregulation advocates had long pointed to apparent successes in the expansion of service and the lowering of fares, such that an ever-growing proportion of the nation's population used air transport year after year, elimination of the Civil Aeronautics Administration generated a less than impressive record of economic accomplishment. From the early 1980s until 1988, the number of independent airline companies fell by more than half; the number of independent regional airlines declined from 250 to 170. In the same time period, over 300 small towns lost commercial aviation service altogether. As major companies, in the deregulated environment, created "hub" facilities, price competition in those particular markets virtually disappeared. Concerns about hard-pressed companies skirting safety regulations, manipulating labor practices, and delaying maintenance schedules proliferated nationwide. By the late 1990s, the industry had reconcentrated itself in the wake of significant mergers. Complaints about price-fixing thus escalated. While many transportation economists had been quick to applaud the implementation of airline deregulation, virtually none of them spoke up about the problems that emerged in the newly configured industry.[17]

Telecommunications afforded a particularly large and complex territory for deregulatory initiatives, especially given the dissemination of new technologies (ranging from the personal computer to remote cellular phones to digital television to the internet) throughout the business world and a large proportion of the nation's households. By ending the AT&T monopoly of the nation's telephone and telegraph market, the 1982 consent decree clearly led to a rapid drop in long-distance toll rates. Much like the immediate impacts of airline deregulation, the divestiture led to a marked increase in the nation's use of long-distance telephony. At the same time, and

again ignored by economists who had mobilized in favor of the break-up of AT&T, the cross-subsidization of local phone costs by long-distance revenues, long claimed by AT&T itself, was lost. Local phone service became increasingly expensive; by the late 1990s, the costs of installing household phones had run sufficiently high as to cause consternation on the part of advocates of lower income groups. Pay phone access was similarly restricted through both higher per-call costs and the reduction in the number of phones available for public use. Fees were imposed for the use of directory assistance for the first time. Many consumer groups were left wondering if the nation's households were left better off or not. No such self-interrogation appears to have occurred in the economics community.[18]

Deregulation of the telecommunications sector also brought a massive restructuring of firms within it.[19] Liberalization of ownership laws, that had for decades sought to mitigate the potential for oligopolistic control, was the proximate cause. New auction rules, implemented by the Federal Communication Commission (FCC) to allocate spectrums for wireless technologies among other innovations, furthered the easing of governmental oversight of the industry as a whole. Allegations of bid rigging emerged almost as soon as the FCC arbitrage began. The economic expertise that had fostered the creation of these new auction procedures was absent efforts to police its equitable enforcement. Meanwhile, the many smaller companies spawned by the AT&T antitrust decision began, by the late 1990s, a merger initiative to reclaim both market share and its attendant control. The difference, this time, was that the federal regulatory apparatus to oversee such newly constituted large industry actors was gone.[20]Act?," Los Angeles Times (3 February 1997), D1, D6; and Robert W. McChesney, "Digital Highway Robbery," The Nation (21 April 1997), 22-4. By the end of October 1997, the Federal Communications Commission had completed the auction of 525 wireless licenses, with bids totaling $13.07 billion. Needless to say, rhetorical justification for auction processes like this one emphasized the revenue enhancement they could also generate to help balance the federal budget. See "Also . . .," Los Angeles Times (29 October 1997), D3. Paul Milgrom was one of the leading economists who

designed auction processes used by the FCC. See his Auction Theory for Privatization (New York: Cambridge University Press, 1996). William Vickrey of Columbia University received the 1996 Nobel Memorial Prize in Economic Science, in part, for work he had done on auction theory.

In the health care industry, deregulation was less an issue, with the exception of proposals to reform product safety codes, than the pursuit of strategies to make the delivery of care more market than practice based. With respect to the former, allegations that the Food and Drug Administration (FDA) had become "hostile" to business and a fetter on profitability in the pharmaceuticals industry dovetailed well with suggestions that new product testing become more privately based. In response to industry complaints that FDA reviews were too costly and time-consuming, friendly politicians -- no doubt inspired by the rhetoric of an economics profession increasingly opposed to government intervention in markets -- took up the cause. Led by Senator James Jeffords, Republican of Vermont, the Congress began consideration of a bill to privatize FDA operations in the Summer of 1997.

As for medical care delivery itself, the drive toward deregulation and privatization revealed a series of contradictions that remained unresolved throughout the 1980s and 1990s. Basing medical practice on a cost-benefit calculus, framing it within the for-profit institutional setting of the health maintenance organization (HMO) and of "managed care," raised a series of disturbing ethical questions and fostered increasing amounts of resistance on the part of consumers. Ironically enough, this in turn stimulated some efforts to reregulate the industry, although the outcome of those initiatives remains unclear. Leading medical economists, such as Uwe Reinhardt of Princeton University, along with their claim that only by imposing free market incentives would the costs of medical care come down over time, increasingly attacked what they described as the "entitlement mentality" of Americans on the subject of health care. In this rhetorical design, of course, these scholars (even if unwittingly) linked their arguments with those of conservatives opposed to the welfare state agendas of earlier decades.

No small part of the movement to render the health care industry more like its private

sector counterparts were the rising costs of Medicare itself in a nation in which the age-composition of the population rose steadily from the 1970s onward. Suggestions that greater proportions of Medicare practice be "profit-based" and that means tests be imposed on Medicare recipients only made more vivid what had become a more and more common strategy of a federal government strapped for revenues -- the imposition of "user-fees" for various services once guaranteed to all under a progressive income tax system. Here again, the budgetary problems of the post-Vietnam War era provided the substratum within which a virtual revolution in both social policy and social science expertise could take place.[21]endorsed by the federal government. Ironically, while the proposed guidelines sought to redress a perceived imbalance between the ability of care providers and patients to protect their interests, no formal mechanisms of governmental oversight and enforcement were established. See Alissa J. Rubin, "Panel to Propose 'Bill of Rights' for Health Care," Los Angeles Times (19 November 1997), A1, A18. Along with Reinhardt, one of the leading professional figures in the debate over the privatization of health care delivery (especially with respect to Medicare) was Alain C. Enthoven of Stanford.

Advocates of market-based practices in social policy also turned their attention to matters of environmental protection. Here too substantial segments of the American business community, by the 1980s, complained of an "over-regulation" with respect to air and water quality, as well as occupational and consumer product safety, that excessively jeopardized the profitability of enterprise. That significant proportions of the work-force could be mobilized in this anti-government stance was more testimony to the anxiety working Americans had regarding the security of their employment than to powerfully held convictions about the virtues of free markets. Economic theorists again became indispensable participants in the conversation.

The notion that direct regulation of "externalities" tied to particular economic activities was necessary precisely because no private allocation of liability was immediately possible in the unregulated marketplace was subjected to growing criticism. In its place the discourse of exchange took center stage. Specialists suggested that externalities be, like all commodities,

instruments of commerce. They argued that firms, whose production processes generated effluents or toxic waste, for example, should be free to bargain, both with government and with private households, as to acceptable levels of discharge. A polluter could then in principle pay a subsidy for environmental damage; those eager to protect the environment, in parallel fashion, might bargain over an agreed-upon level of payments to an establishment to cease and desist from particular activities. Inspired by this kind of reasoning, the Air Quality Management District in the Los Angeles region instituted a 1994 program of "smog credits" whereby companies could accumulate points allowing for particular levels of air pollution in exchange for other environmental remediation (such as paying for the scrapping of old cars without catalytic converters). The general idea was market based: let pollution be bargained over like any other product. Private parties to that transaction, acting on rational incentives, would generate "optimal" outcomes.[22]

American economists became increasingly enthralled with the idea of "market driven" solutions to the problem of externalities. In their enthusiasm, many theorists overlooked historical and political legacies that made this part of the deregulatory strategy particularly clumsy. None of these were more apparent than the processes of industrial location that tended to concentrate dangerous operations in neighborhoods and regions more heavily populated by the poor. Their lack of access to effective legal representation made these communites only more susceptible to the worst that the dismantling of environmental regulation could offer. By the late 1990s, it became obvious to a growing number of community activists that privatized markets in pollution credits yielded higher concentrations of pollutants in certain areas while more affluent communities reaped the benefits. That the dimensions of class, in these cases, were often paralleled by those of race and ethnicity made the results all the more obnoxious. "Environmental racism" thus became not simply a rallying cry for a new generation of local organizers, but also a particularly disturbing label for a policy outcome hardly contemplated by its most ardent architects.[23]

As an instrument of alleged social reform, the free market became a canonical device in the hands of late twentieth century economic policy analysts. Deregulation of electricity transmission, privatization of prisons, proposals for "tax vouchers" to create a private market in schooling, the renewed construction of toll roads, suggestions that the postal service be eliminated, trial programs to let private corporations run state welfare systems, experimentation with the privatization of social security accounts, contracting out local services to private firms -- ranging from parks maintenance to air traffic control to public library networks -- even the notion that various parts of the national security and defense apparatus be contracted out to the highest private bidder, all became and remain parts of a new economic "discourse" in contemporary America.[24]

Yet, in perhaps the greatest irony of all, the profession that had once prided itself on the refinement of the idea of "opportunity cost" had (and continues to have) virtually nothing to say of substance regarding the "opportunity costs" of privatization.[25] On the one side, deregulated markets fostered the expenditure of vast sums of money on new promotional efforts to encourage consumers to shift services from one provider to another. Daily mail deliveries, and frequent evening phone calls became the advance guard of a tidal wave of sales efforts and "come-ons" that presumably fostered competition in previously monopolized services but which also consumed greater and greater amounts of both company resources and households' time and energy. At best, deregulation prompted confusion among targeted populations; at worst it provided a venue within which corrupt practices could flourish.[26] To respond in reasoned and informed ways to every proposal would have forced consumers to allocate ever-increasing amounts of already scarce time to their evaluation. For a vast majority of consumers it was not unreasonable to assume that the avalanche of competitive market information became an incoherent and often bothersome babble. Models of "rational expectations" were clearly not equal to the task of explaining this strange new reality. In this context, the warning of the ages -- "caveat emptor" -- took on an altogether poignant meaning.[27]

On the other side, deregulation restructured markets in ways that often stifled competition. By the early 1990s, local governments began to examine the practices of new entrants in major utilities sectors that seemed decidedly manipulative if not based on overt conspiracies to restrain trade. In certain instances, proposals to "re-regulate" industry met with attentive hearings in local government agencies. Over time it is conceivable that certain sectors may indeed by subject to new regulatory discipline, although such intervention will take place in the wake of a complete redistribution of particular markets among a new set of industrial actors. Viewed from this broad, historical perspective, deregulation in the late twentieth century United States was actually nothing of the sort. Far from an inspired political process of liberation, whereby an overweening state apparatus was chased from the field of energetic competitive enterprise, deregulation was actually an essential moment in the re-regulation of the nation's markets for the benefit of new corporate constituencies.

Privatization also generated productivity losses and cost inefficiencies owing to the burdens it imposed on communities negatively affected by market restructuring. For example, in central urban areas where banking deregulation led to the liquidation of large numbers of branches, whole neighborhoods found themselves without banking service. In many cases this then prompted the proliferation of check-cashing and gyro-account storefronts that imposed large fees for their services. The same was true of the increasing use of automated banking machines. Aside from the direct cost consequences of these developments, the additional indirect burdens loomed large. Individuals might spend half to all of a day taking care of a variety of transactions that once could have been quickly secured at a local banking branch. In health care and daycare, similar problems emerged in the wake of deregulation -- serving only to increase the number of lost working days for a population already paying ever higher fees for services once provided on a more universalized and thus cheaper basis. Perhaps in this sense, contemporary markets should not be understood to have been "privatized" but rather to have been "anomized" or "dis-associated." For a significant portion of the nation's population, the effort to de-collectivize the assignment of

cost liability for an array of social "goods" had a significant impact on styles (and qualities) of life and levels of economic welfare.[28]

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Whatever misgivings some may have had about the trend and impact of national economic policy in the early 1990s were only faintly heard. By mid-decade, a dramatic boom began in American stock and allied financial markets that continued, in almost uninterrupted fashion, until the terrorist attacks of September 2001. The presumption that the run-up would last forever infected the sensibilities of Americans drawn from all walks of life. In 1995 alone, more than a hundred billion dollars was invested in the stock market and investment in speculative capital simply increased from there. Many working people placed their entire retirement nest-eggs into 401(k) plans and Investment Retirement Accounts. Daytrading, a highly volatile enterprise in which literally millions could be lost in seconds, became a fad. With the proliferation of virtual, electronic marketplaces, many individuals tried their hands at such gambling while often lacking the time, training, and financial security to underwrite their excessive risk-taking. Meanwhile, electronic commerce took off, with spectacular run-ups in the stock values of firms that existed solely on-line, most of which had never executed a genuine transaction nor met a formal delivery-date for their output. By the early months of 2001, the Dow Jones Industrials had broken 10,000 an un-imagined plateau.

Economic booms never last forever, and that which had defined the American economy s prospects from the 1990s to the turn of the 21st century was no different. By the early summer months of 2001, warning signs marred virtually every market horizon. Energy prices accelerated upward; stock-market values softened, as profit-seekers cashed in on the high values generated in the boom; manufacturing output slowed; and layoffs began to rise. Then, with the September 11 attacks in New York City, western Pennsylvania, and Washington, D.C., the upper turning-point

was clearly reached.

In the midst of the economic slide after 9-11, it became increasingly obvious that the national economy, working in a dramatically unregulated and tax-revenue poor environment in which the federal government s capacity for countercyclical management had been decisively curtailed, had become quite fragile indeed. Strikingly enough, the very timidity of the fiscal spending proposals brought before the Congress to deal with the downturn, gave ample testimony to that fact. Even the most aggressive pump-priming bills, debated on Capitol Hill, embraced spending targets that approximated a mere one to two percent of gross domestic product. The fragile nature of the national infrastructure, in the face of the terrorist attacks, was also demonstrated by the inability of the Federal Aviation Administration to make rapid adjustments to the disarray occasioned in airline operations by the attacks themselves, and they were further portrayed by the chaotic response of an enervated public health apparatus in the face of a series of horrifying, yet unexplained contaminations of the national postal system by letters laced with anthrax.

As if the recession after 9-11 and related economic dislocations were not enough, by early 2002, yet another dramatic incident further evidenced the fragility of the national marketplace in the wake of deregulation and the application of supply-side economics. Enron Corporation, one of the largest firms in the country with major interests in energy trading and distribution networks, filed for bankruptcy early in January of the new year. As liquidation proceedings documented, it rapidly became clear that the company had run up its stock values through a wide array of manipulations, falsified accounting records, and outright deceit. The accounting giant, Arthur Anderson Company, became implicated in the debacle when it was revealed that its auditors not only participated in the subterfuge but also began the systematic shredding of documents when it became clear that the end was near.

At the time of this writing, a recovery from the current recession appears underway, but the impact of the upturn on jobs-creation, particularly in manufacturing sectors, remains

problematic. A growing scandal around the Enron bankruptcy, with allegations of federal government involvement in the concealment of the firm s sharp-dealing, sometimes threatens to push news of the sustained military operations against the alleged perpetrators of the September 11 attacks from the front pages of the nation s news dailies. Indeed, a torrent of new allegations have emerged regarding potentially criminal conduct with respect to accounting practices at WorldCom, Tyco International, Harken Energy Corporation, and Peregrine Systems to name just a few of the major corporations now caught up in ever-widening investigations of enterprise misconduct. A variety of large mutual funds have been targeted for criminal and civil investigation because of allegedly fraudulent practices with respect to the assessment of trading fees and the timing of trades themselves.

Amidst great economic uncertainty, one thing remains quite clear. The dismantling of Keynesian-style fiscal management (the policy hallmark of the Cold War era) and the deregulation of the nation s marketplaces, that began during the high-tide of the Reagan presidency, has had an enduring impact on the ability of the government both to maintain cyclical stability in the face of economic shocks and to sustain regulatory vigilance and control of financial and other related practices. As a consequence, especially since the September 11 attacks, the federal government finds itself incapable of taking matters decisively in hand.

Making war against Iraq has strangely enough only further interfered with Washington s ability to manage the nation s economic affairs. The conservative constituency brought to power in the closely contested (and deeply controversial) 2000 presidential election has insisted on pursuing a conservative agenda in domestic affairs that conflicts decisively with the fiscal realities of unilateral ambitions abroad. Throughout most of the Cold War era, successive presidential administrations (drawn from both major political parties) had yoked high levels of public spending for military and diplomatic initiatives overseas with measured countercyclical policies directed toward balanced and fair economic growth at home. Yet the very victory in the Cold War with the Soviet Union severed this link between an active role in the world and socio-economic

progress at home. While the aggressive foreign policy ambitions remain, the progressive domestic agenda does not.

In many respects, the collapse of the Cold War coalition that brought conservatives determined to confront Soviet influence in the wider world together with liberals focused on social needs at home was the direct result of the success of the Cold War itself. Liberals themselves, ironically enough, contributed to this remarkable script of political economic deconstruction. Eager to criticize the errors of American foreign policy in the wake of the debacle of the Vietnam War, the Left nonetheless neglected to explore, in a thorough and rigorous fashion, the close economic and political connections between military-industrial spending, anti-communist containment strategy, and social welfare initiatives that had defined the New Deal order since the end of World War II. As a result, the primary mechanisms of fiscal and monetary control that had fostered the progressive social agendas of the Cold War era were ripe pickings for a conservative insurgency determined to destroy the vestiges of the New Deal while remaining committed to the anti-communist containment goals of the past.

Of course, since the collapse of the Soviet Union and the devolution of its satellite states, the global containment strategies of the United States are no longer focused on the activities of a (now crippled and bankrupt) Red Army and Navy. Indeed, containment today is all about the pursuit of pro-capitalist policies throughout the world. Whether anti-Soviet containment had been an aggressive or a defensive foreign policy posture in the post-World-War-II era has long been a subject of debate among historians and political scientists; today, by contrast, containment of the world s regions on behalf of capitalist American interests is the core foreign policy stance fashioned by the U.S. government.

To be sure, since the end of major military operations in Iraq, there have emerged some rather crude examples of the ways in which a new conservative coalition seeks to tie foreign policy to domestic concerns. The award of reconstruction contracts to individual corporations, most of which have as their primary retainers major leaders in the American government (most notably

and notoriously Vice President Dick Cheney), gives concrete testimony to the derangement of the Cold War era consensus regarding public spending strategies and anti-communist containment. Over a half a billion dollars will engross the Bechtel Corporation as it executes a contract to rebuild Iraqi infrastructure for which it never had to bid; similarly Vice President Cheney s former employer, the Halliburton Corporation, will earn as much as $7 billion to restore Iraqi oil fields to full production. These singular examples of political economic corruption stand in sharp contrast to Cold War projects like the Marshall Plan that had sought to benefit an entire national economy in the project of postwar reconstruction in western Europe.

Needless to say, the postwar reconstruction of Iraq will take place on a world stage markedly different from that of 1948. Over a half-century ago, the U.S. economy stood alone, among the major industrialized nations, as the source of manufacturing output and skilled labor. Today, U.S. policy is oriented no longer toward containing (a non-existent) communist influence but rather toward limiting the influence of foreign capital in its competition with American wealth in world markets. When, in May of 2003, WorldComm Corporation, one of the disgraced entities in the accounting scandals that have plagued the American economy since 2000, won a contract to build Iraq s first cell phone network, the effort was born as much of a determination to bring the money for the project home to a U.S. firm as it was to exclude prime foreign competitors from reaping any benefits at all. Part of the legislation passed in the Congress to frame the disbursement of public monies for postwar reconstruction in Iraq tried to require that any new telecommunications networks utilize technological standards developed by American, rather than European, firms.

The contemporary disjunction between American foreign policy and domestic management of economic needs has placed the second Bush administration in the grips of a profound dilemma. While it pursues its foreign strategies, tied as they are to exceedingly conservative fiscal and monetary policies at home, the American government struggles to articulate a coherent economic agenda. Unemployment persists in certain troubled sectors,

capital markets are roiled by scandals and mismanagement, and the international value of the dollar steadily weakens as global financial markets become increasingly concerned about insipid economic performance and unstable credit markets in the U.S. as a whole. Where earlier Cold War presidential administrations had consistently found ways to stimulate economic growth and employment at home while containing Soviet and Chinese influence overseas, the Bush government struggles to reconcile its divergent and contradictory policy impulses. Born of decades of tax-cutting and deregulation, that impasse is properly understood as the most significant legacy of the economic policy environment of the 1990s and even earlier decades.

Endnotes

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[1] George H.W. Bush's travails as the nation's 41st President provided a unique example of the "new classical economic chickens" coming home to roost. Within the first year of his term, it became obvious that federal tax cuts had so unbalanced the federal ledger that the nation's capital markets were at risk given the enormous amounts of borrowing undertaken by the Treasury. Forced ultimately to ask for a tax increase, the President found himself hounded by the right-wing of his own Party as the 1992 campaign approached. Most analysts believe these intra-party struggles played a significant part in weakening Bush's bid for reëlection. Bill Clinton's subsequent triumph, as the first Democrat to reach the White House in 12 years, was a striking representation, in the political realm, of the inherent contradictions to be found in a national fiscal policy recast by "Reaganism." See, in this regard, Peter Passell, "The Tax-Rise Issue: Bush Rationale vs. Economists," New York Times (10 May 1990), A14. No less an authority than Richard Darman, Director of the Office of Management and Budget under President Bush, ultimately claimed that the combination of Reagan tax cuts and increased military spending constituted the largest and most undisciplined addition to federal debt in the nation's history. See his Who's in Control?: Polar Politics and the Sensible Center (New York: Simon and Schuster, 1996).

[2] In his memoir, Who's in Control?, Richard Darman argues that the massive rise in the national debt during the 1980s was far more the result of increased military spending than it was due to the cost of social spending (especially anti-poverty) programs. It is well worth noting that, at the same time, a rhetorical sleight-of-hand took place so subtle as to provoke little if any comment. Increasingly, politicians, economists, and voters alike spoke of what were once called "transfer-payments" (such as Medicare, Medicaid, Aid to Families with Dependent Children, Food Stamps, and Social Security) as "entitlements." The former label, of course, was freighted with operational and technical meaning drawn from the national income accounts themselves. By contrast, the latter evoked notions of engrossment at public expense by those possibly unworthy. Just as one could be "entitled" to something, one could just as arguably be "unentitled." Thus it became easier to speak of program elimination, zero-base budgeting, means-testing, and an array of efforts at fiscal contraction literally unthinkable a decade or more earlier. In such simple yet profound changes in word choice, conservatives found yet another weapon in their determination to disestablish the mixed economy of the postwar era. See Gareth Davies, From Opportunity to Entitlement: The Transformation and Decline of Great Society Liberalism (Lawrence: University Press of Kansas, 1996).

[3] In it most typical renditions, the proposed amendment would mandate a three-fifths majority in the Congress to pass any exceptions to a balanced budget in any given year -- a legislative threshold that would effectively cripple any efforts toward deficit spending save for those in times of war. At the 1985 National Governors Association convention, it was Arkansas' Bill Clinton who stood as one of the most resolute Democratic supporters of the amendment proposal. His position changed quickly upon his election as President.

[4] Virtually alone among his colleagues, Robert Eisner of Northwestern University provided the most systematic critique of both contemporary government accounting practices and, thereby, of conservative assertions regarding public finance. See his How Real is the Federal Deficit? (New York: Macmillan, 1986) and his The Misunderstood Economy: What Counts and How to Count It (Boston: Harvard University Business School, 1994).

[5] A particularly compelling discussion of the century's progress of American liberalism, framed more with reference to intellectual rather than political economic contexts, is Gary Gerstle's "The Protean Character of American Liberalism," American Historical Review 99 (1994), 1043-73. Also see Alan Brinkley, The End of Reform: New Deal Liberalism in Recession and War (New York: Knopf, 1995) and Steven Fraser, Gary Gerstle (eds.), The Rise and Fall of the New Deal Order:

1930-1980 (Princeton: Princeton University Press, 1989).
[6] See John B. Taylor, "Changes in American Economic Policy in the 1980s: Watershed or Pendulum Swing?," Journal of Economic Literature 33 (1995), 777-84 as well as Richard M. Alston, J.R. Kearl, Michael B. Vaughan, "Is There a Consensus Among Economists in the 1990s?," American Economic Review 82 (1992), 203-20. American Economic Association President Gerard Debreu offered interesting speculations about the tendencies of modern economists to indulge an introverted formalism in his presidential address in 1991: "The Mathematization of Economic Theory," American Economic Review 81 (1991), 1-7.
[7] The authorship "shares" reported in a 1983 study for the period 1973-1978 were, respectively, 54% in the American Economic Review, 58% in the Journal of Political Economy, and 74% in the Quarterly Journal of Economics. See E. Ray Canterbery and Robert Burkhardt, "What Do We Mean by Asking If Economics is a Science?," in Alfred Eichner (ed.), Why Economics Is Not Yet a Science (Armonk: M.E. Sharpe, 1983), 15-40. On the articulation of alternative scientific "paradigms," the classic reference is Thomas S. Kuhn, The Structure of Scientific Revolutions (Chicago: University of Chicago Press, 1970). A decade ago, Hyman P. Minsky once argued that the scholarly debates among Keynesians and monetarists during the 1970s were really nothing of the sort. Given that "the competing camps used the same economic theory," the substance of their dispute was minor and the potential outcomes of its resolution hardly innovative. See his Stabilizing an Unstable Economy (New Haven: Yale University Press, 1986), 102, 138. Independent of the formulation of opinion within the economics profession, there is the broader issue of how public attitudes on economic matters were and are framed. The entire question of the rôle of the "financial press" and of non-profit organizations in both setting the terms of public debate on policy issues and influencing public understanding of them is a signficiant matter for further historical inquiry. In this regard, see, for example, Wayne

[8] See Peter Coy, "Let's Not Take Feel-Good Economics Too Far," Business Week (20 October 1997). Mankiw s text, Principles of Economics, was issued by Harcourt, Brace.
[9] Gardiner Means, early in 1975, had put it well to his friend and colleague Richard Goodwin (a professor at the University of Cambridge then visiting at Harvard). "Traditional

[10] It is interesting to consider that at the very time that such changes in the outlook of the profession took place, opportunities for the employment of economists in the private sector increased dramatically. No doubt a parallel development, in this regard, was the transition in the aspirations of new generations of students who sought out careers in the corporate world rather than, as their predecessors had done a few decades before, positions in the government service. Equally intriguing is the fact that the anti-statism of this new cadre of young economists had close formal (if not substantive) similarities with that of an earlier generation who, in the 1960s most especially, as a "New Left" had excoriated government professionals as servants of a malicious power elite. On the notion of laissez-nous-faire, see William Appleman Williams, The Contours of American History (Chicago: World Publishing, 1961).
[11] A particularly vivid, if strident representation of these arguments is Susan Lee, Hands Off: Why the Government is a Menace to Economic Health (New York: Simon and Schuster, 1996). An historical perspective on American attitudes regarding regulation is provided by Rudolph J.R. Peritz, Competition Policy in America, 1888-1992: History, Rhetoric, Law (New York: Oxford University Press, 1996). The strange ironies inherent in privatization strategies were revealed on a local level late in 1996 in San Diego, California. In the wake of public ratification of Proposition 218, a ballot measure requiring local governments to seek voter approval for all tax and fee increases, both Standard and Poor's and Moody's Investor Service downgraded San Diego's credit ratings. As a result, the costs of bond financing for the city rose. An effort allegedly undertaken to reduce the tax burdens of the city's residents thus generated an outcome that will, over time,

increase them. See Philip J. LaVelle, "City Suffers Costly Slash in Credit Ratings," San Diego Union Tribune (6 December 1996), A1, A27.

[12] See, for example, James Risen and Douglas Jehl, "Bush to Call for Freeze on New Regulations," Los Angeles Times (21 January 1992), A1, A14; Edwin Chen, "White House Pushes Deregulation," Los Angeles Times (31 January 1992), D4; and James Risen, "Clinton Kills Controversial Quayle Panel," Los Angeles Times (23 January 1993), A14. Thomas Petzinger, Jr. provides a thorough survey of the impacts of deregulation in the American aviation industry in his Hard Landing: The Epic Contest for Power and Profits That Plunged the Airlines Into Chaos (New York: Times Business, 1996).

[13] Much of this argument, and that which follows, is derived from my "The Contemporary American Banking Crisis in Historical Perspective," Journal of American History 80 (1994), 1382-96.

[14] Data on thrifts' income were generated by the Federal Home Loan Bank Board and the Office of Thrift Supervision. See Lawrence J. White, The S&L Debacle: Public Policy Lessons for Bank and Thrift Regulation (New York: Oxford University Press, 1991), 19.

[15] The words are those of Martin Mayer in his The Greatest-Ever Bank Robbery: The Collapse of the Savings and Loan Industry (New York: Collier, 1990), 61.

[16] The "bailout" was undertaken by a newly created agency, the Resolution Trust Corporation (RTC). Whether some of the legislative machinations around the operations of the RTC involved criminal conduct, as suggested in a flurry of investigative activity concerning the "Keating Five" (Senators Alan Cranston of California, Dennis DeConcini of Arizona, John Glenn of Ohio, John McCain of Arizona, and Donald Riegle of Michigan), who, some alleged, supported bailout efforts in exchange for campaign contributions and other emoluments, was never thoroughly investigated. Similarly unresolved allegations were made concerning the activities of Member of Congress Fernand St. Germain (Democrat of Rhode Island) who had personally led the move to raise insurance deposit thresholds. Critics suggested that St. Germain orchestrated lavish dinners and receptions (often peopled with hired escorts) at which S&L lobbyists could mingle with congressional representatives. See, for example, James Ring Adams, The Big Fix: Inside the S&L Scandal: How an Unholy Alliance of Politics and Money Destroyed America's Banking System (New York: Wiley, 1991), 17-19, 23-5, 269ff; and, more recently, Kitty Calavita, Henry N. Pontell, Robert H. Tillman, Big Money Crime: Fraud and Politics in the Savings and Loan Crisis (Berkeley: University of California Press, 1997). Ironically enough, Reagan administration efforts to reduce federal payrolls also seriously weakened the number of personnel available at the Treasury and the Federal Reserve Board who provided oversight and enforcement of federal regulations regarding banking practice. This cost-cutting strategy thus further contributed to the crisis in the S&L industry.

[17] By 1996, the nation's airways were dominated by three major carriers -- American, Delta, and United. This was hardly the scenario envisioned (nor extolled) by the proponents of deregulation two decades earlier. In the struggle for business, many aviation companies developed "frequent flyer" programs in the 1980s -- systems designed to tie customers to particular airlines through a schedule of ticket rebates that were as confusing and anti-competitive in their use as they were frequently revised and manipulated when the number of potential claimants was large. On these matters see James F. Peltz, "Airline Mergers '90s-Style Might Stand a Better Chance This Time," Los Angeles Times (5 December 1996), D1, D9; and "Justice Dept. Reviews Claims of Airlines' Price Squeeze," Los Angeles Times (12 February 1997), D1, D3.

[18] See, for example, Susan Moffat, "Right Call?: 10 Years Later, AT&T Split Favors Business," Los Angeles Times (7 January 1992), D1, D7; Jube Shiver, Jr., "New Rules Will Let Pay Phone Rates Climb," Los Angeles Times (9 November 1996), A1, A19; Jube Shiver, Jr., "Deregulation of Phones Stirs Hornet's Nest," Los Angeles Times (28 April 1997), D1, D4; Jube Shiver, Jr., "New Federal Rules Expected to Result in Pay Phone Hikes," Los Angeles Times (7 October 1997), D1, D22; and

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Nancy Rivera Brooks, "PacBell Hikes Coin-Call Rate," Los Angeles Times (18 October 1997), D1, D3.

[19] Indeed, beginning in the mid-1980s, a new merger wave took place in major sectors of American industry. These consolidations represented some of the most significant and telling outcomes of "deregulation." Gulf Oil completed a $13.4 billion alliance with Standard Oil of California in 1984; Kraft merged with Philip Morris in 1988 in a deal similarly valued; RJR Nabisco bought Kohlberg Kravis Roberts in a $25 billion negotiation in 1989; and Warner Communications absorbed Time, Inc. for $14.11 billion two years later. In 1996, there was a virtual "merger fever" that witnessed the consummation of six major take-overs: Bell Atlantic Corporation appropriated Nynex Corporation for $22.7 billion; Disney Company, Capital Cities/ABC for $19 billion; SBC Communications, the Pacific Telesis Group for $16.7 billion; WorldCom, MFS Communications for $14.4 billion; Wells Fargo, the First Interstate Bancorp for $14.2 billion; and Boeing, McDonnell Douglas for $13.3 billion. Here too Reagan-era "downsizing" of federal agencies appeared to have played an important part -- most significantly with respect to the enfeebled Antitrust Division of the United States Department of Justice.

[20] See, for example, "Court Blocks Rule on Local Phone Rivalry," Los Angeles Times (16 October 1996), D1, D6; Jube Shiver, Jr., "Justice Dept. Approves Merger of PacTel, SBC Communications," Los Angeles Times (6 November 1996), D1, D9; "FCC May Loosen Ownership Rules," Los Angeles Times (8 November 1996), D4; "FCC to Auction Wireless Licenses," Los Angeles Times (12 March 1997), D3; "Merger of Baby Bells Clears Hurdle," Los Angeles Times (25 April 1997), D10; Jube Shiver, Jr., "U.S. Probes Alleged Fixing of Bids for FCC Licenses," Los Angeles Times (1 May 1997), D1, D5; Jube Shiver, Jr., "AT&T Rate Cut Clears Way for FCC Reforms," Los Angeles Times (5 May 1997), D1, D2; and Karen Kaplan, Thomas S. Mulligan, "Telephone Giants AT&T, SBC Discuss $50-Billion Merger," Los Angles Times (28 May 1997), A1, A18. On Veterans Day 1997, MCI Communications and WorldCom announced their agreement to merge -- the $37 billion deal constituted the largest corporate consolidation in the nation's history. See Jube Shiver, Jr., "MCI, WorldCom Agree to Record $37-Billion Merger," Los Angeles Times (11 November 1997), A1, A15. The 1996 Telecommunications Act also raised a variety of concerns linked to freedom of access and freedom of speech on the internet along with frustrations that the reconcentration of ownership in telecommunications would continue unabated. See Jube Shiver, Jr., "Was Telecommunications Reform Just Another

[21] See, for example, Jacob S. Hacker, The Road to Nowhere: The Genesis of President Clinton's Plan for Health Security (Princeton: Princeton University Press, 1997); Richard A. Epstein, Mortal Peril: Our Inalienable Right to Health Care? (Reading: Addison-Wesley, 1997); Timothy Egan, "Oregon Lists Illnesses by Priority To See Who Gets Medicaid Care," New York Times (3 May 1990), A1, A10; Carl Ginsburg, "The Patient as Profit Center: Hospital Inc. Comes to Town," The Nation (18 November 1996), 18-22; David R. Olmos, "Ruling Expands Medicare Patients' Rights," Los Angeles Times (12 March 1997), D3; Alain C. Enthoven, Sara J. Singer, "Perspective on Medicare: 2010 Will Be Too Late to Reform," Los Angeles Times (12 March 1997), B9; Jonathan Peterson, Janet Hook, "Clinton Comes to Defense of Medicare Means Testing," Los Angeles Times (23 July 1997), A16; and David R. Olmos, "Survey Finds Wide Distrust of HMO Care," Los Angeles Times (6 November 1997), A1, A18. By the Fall of 1997, widespread anxiety over the quality of "managed health care" led President Clinton to accept the suggestion of a special commission he established that a "bill of rights" for patients be

[22] Perhaps no individual has been more influential in transforming the way both economists and attorneys think about these issues than Federal Circuit Court Judge Richard A. Posner, whose books afford a profound example of the core intellectual tenets of the deregulation movement. See his Economic Analysis of Law (Boston: Little, Brown, 1972); The Economics of Justice

(Cambridge: Harvard University Press, 1981); and (with William M. Landes), The Economic Structure of Tort Law (Cambridge: Harvard University Press, 1987).

[23] See, for example, Marla Cone, "Civil Rights Suit Attacks Trade in Pollution Credits," Los Angeles Times (23 July 1997), A1, A19; Chris Kraul, "This Commodity's Smokin': Companies Trade Smog Credits on Online Exchange," Los Angeles Times (30 April 1997), D2; and Frank Clifford, "Approval of Smog Credits is Suspended," Los Angeles Times (28 August 1997), A26.

[24] See, for example, Trudy Lieberman, "Social Insecurity: The Campaign to Take the System Private," The Nation (27 January 1997), 11-17; Richard B. Anderson, "When Government Joins the Market Frenzy, We All Are at Risk," Los Angeles Times (27 January 1997), B5; Dave Lesher, "Privatization Emerges as New Welfare Option," Los Angeles Times (27 January 1997), A1, A16; Chris Kraul, "PUC Opens State to Competition for Energy Customers," Los Angeles Times (7 May 1997), A1, A22; Susan Essoyan, "A Word of Caution on Pitfalls of Privatization," Los Angeles Times (15 May 1997), A5; Chris Kraul, "The State's New Power Brokers," Los Angeles Times (15 August 1997), A1, A21; Ken Silverstein, "Privatizing War: How Affairs of State are Outsourced to Corporations Beyond Public Control," The Nation (28 July/4 August 1997), 11-17; "Inmate-Abuse Suit Filed by Missouri," Los Angeles Times (26 August 1997), A15; and "Inmate Abuse Is Said Worse Than Reported," Los Angeles Times (28 August 1997), A18. Critics of utilities deregulation have alleged more recently that in California the process has also involved commitments by state officials to allow private utilities firms to recoup, through rate increases, the costs of failed nuclear power projects. As for correctional institutions, by November of 1997 the operation of some 100 prisons nationwide had been taken over by private firms.

[25] To be sure, an increasing array of economics scholarship has focused on the question of "transactions costs" associated with particular forms of bargaining. But this work has been disproportionately focused on the concerns and needs of firms contracting for labor, supplies, and marketing services. It has rarely if ever focused on consumers, and it has certainly not been applied in any systematic way to the "transactions costs" of deregulation. For one of the finest examples of the transactions costs literature, see Oliver Williamson, The Economic Institutions of Capitalism: Firms, Markets, and Rational Contracting (New York: Free Press, 1985).

[26] The best known cases of malfeasance in this regard involved "slamming" whereby new entrants in the telephonic communications market would shift household accounts without notifying the responsible parties. Yet above and beyond potentially criminal conduct, the time-honored practice of the "loss leader" became another strategy for market penetration that left countless numbers of consumers worse off.

[27] This is especially evident in those markets, such as that for health care, where consumers do not have the expertise to make rational choices. As one investigator put it recently, [w]hen you are a patient, it s not like buying a Toyota. Patients don t know how to choose their own anesthetic. See David Shenk, Money + Science = Ethics Problems on Campus, The Nation 268 (1999), 11-18 at 17. There was an additional cost consequence of deregulation in particular utilities sectors -- the proliferation of service providers for a single service itself. A large number of households, for example, now receive multiple bills for telephone service (one for local service, one for long-distance service, and so forth). The cost of generating those bills and posting them, not to mention of paying them, represents another "opportunity cost" of deregulation unexamined and unremarked by its proponents.

[28] In recent years, a "feminist economics" has emerged in the hands of certain scholars -- one that has encouraged examination of such issues as the costs (both direct and indirect) of privatized healthcare and childcare, not to mention of domestic labor in general. See, for example, Marianne A. Ferber, Julie A. Nelson (eds.), Beyond Economic Man: Feminist Theory and Economics (Chicago: University of Chicago Press, 1993) and Julia A. Nelson, Feminism, Objectivity and Economics (New York: Routledge, 1997). Strikingly enough, this new research powerfully resonates with the activism of an earlier generation who, before and after World War I,

campaigned for collectivized daycare and domestic-labor arrangements in urban settings, arguing that the costs of "nuclear" family provision of such services were excessive. See Dolores Hayden, The Grand Domestic Revolution: A History of Feminist Designs for American Homes, Neighborhoods, and Cities (Cambridge: MIT Press, 1981). Joâo Vargas, a graduate student in Anthropology at the University of California, San Diego and now an assistant professor at the University of Texas-Austin, completed a dissertation that focused on, among other things, the ethnographic and economic history of South-Central Los Angeles. He was able to document the enormous amounts of time the residents of this part of the city expended on the cashing of checks, the paying of bills, and the fulfillment of other transactions in an area more or less stripped of banking service in the wake of deregulation. See his Blacks in the City of Angels Dust (unpublished Ph.D. dissertation; University of California, San Diego; 1999).