Watch Out: Prosperity Is Just Around the Corner (Again)

"The American economy has been a junkie since...World War I"

ECONOMISTS DON'T HAVE VERY much to do with what happens to the economy, but the degree to which they have been effective in recent years has been, on balance, damaging. Their advisory function—directly, in government; indirectly, in print and in the academy—may be compared closely to the sort given by the Pentagon military- and RAND-types in Indochina. After the economy began to move into inflationary trouble in 1967 and into contraction in 1969, each "bad" sign along the way was interpreted by the economists who spoke for the profession and the government as aberrant, but each "good" sign was seen as significant, meaningful—exactly as happens with the official reports on the Vietnam war. There is always a sport or two in any profession whose voice can be heard, and occasionally acted upon, especially in the midst of turmoil. General Gavin got his way on the enclave proposal, which allows the U.S. to murder and rule in Indochina while America sleeps—although the end of that story is yet to be told. Like Gavin, Milton Friedman is sophisticated and attentive, and a year or so ago he could see that the economy was in trouble better than the rest of the profession could. Right on! He thought the trouble could be corrected without too much pain if the federal government would increase the money supply by five per cent or so. They did, but the trouble remained. Wrong on! What now, Milton?

The nasty mixture of continuing inflation and rising unemployment is likely to continue—not ad infinitum, but until the contraction of the economy becomes severe enough to halt the rise in prices. One can only guess at just when that will be; my own guess is that a rate of something between seven and eight per cent unemployed will suffice to bring consumer price inflation below four per cent per annum—and that should be reached some time early this year. By then, even Nixon will cease talking about inflation; and even McCracken (before or after his resignation from the Council of Economic Advisors) may find it appropriate to retract his marvelously candid statement of October 1970, when, in response to a reporter's question as to what conditions might cause him to acknowledge that the Nixon economic "game plan" isn't working, he said there weren't any. As in Vietnam, we just keep winning, no matter what other evidence presents itself. But pathetic though the military and paramilitary analyses of the Indochina war are, we can't laugh at them, because they prolong murder; and so it is with the economics profession: the inflation and the contraction have already hurt millions upon millions of people whose lives were rough enough before the troubles multiplied—and the worst is yet to come.

Economically speaking, "the worst" usually conjures up images of the Great Depression. But what is usually meant in evoking that era—unemployment going to 25 per cent, with associated quantitative disasters of production, business failures and the like—does not apply here. Our troubles already include growing unemployment, and there will be more of it as the economy's bad cold turns into influenza. But our troubles are more complicated, more difficult to cope with, than those signified even by this metaphor: the weakness of influenza plus a high fever—but all of this taking place inside a body that has been kept alive and vigorous with pills of varying colors. The American economy has been a junkie since at least the years surrounding World War I, although for present purposes an analysis need not begin earlier than

by Doug Dowd

World War II and the manner in which it allowed the malignancies of the pre-war economy to be forgotten. It is more than symptomatic of our present difficulties that the acceptable vocabulary of discussion and the conventional standards for judging the performance of the economy—prices, overall employment, and output—are those concocted for the crisis of the Thirties. They became enshrined in economic analysis in the boom years of the Forties and Fifties, as St. Paul Samuelson spread the gospel of Our Lord Keynes (who would be only slightly less offended than Christ by the narrow version of his teaching that now holds sway).

Among economists' fantasies, a favorite is that "We have learned a lot since the Thirties. We have the policies to keep us from, or get us out of, a serious *recession*." ("Depression" is a word no economist would ever use anymore. "Depressions" are extinct.) But this is incorrect for the same complex political reasons that explain our deepening recession-*cum*-persisting inflation—a process which, it must be understood, defies the economists' faith that "tolerable" amounts of unemployment could easily be traded off against "tolerable" amounts of inflation—and all this by "fine tuning." Fine tuning doesn't do much good when the tubes are weak; but economists these days are much like the TV audience in that they don't understand how the set works. Where that analogy breaks down, and uncomfortably, is that TV-watchers can call in a repairman; but the economist *is* the repairman.

CONNECTED WITH ECONOMISTS' present inability to understand the economy is their longstanding refusal to analyze why the post-war period has been as "prosperous" as it has been. That refusal is understandable, for the explanation for the prosperity is not a pretty one. It was World War II, not peacetime New Deal policies, that lifted us out of the Great Depression. Ten per cent of the population was unemployed at the end of 1941. In 1949, just before Korea, unemployment had gone over five per cent again, and while that splendid little war buoyed the economy for a few years, from 1954 on unemployment never went below four per cent, and was over five per cent for seven out of the next ten years. In 1965 the war got hot and the unemployment rate went below five per cent and stayed there until the fall of 1970.

If hot war wasn't the only major factor working to give us a "healthy economy" after 1946, the consequences of World War II and the onset of the Cold War filled out the picture. The U.S.'s expenditure of one trillion, one hundred billion dollars on the military since 1946 is most important, of course. But direct and indirect military expenditures were added to and facilitated by a whole string of institutions—the Marshall Plan and NATO, Point Four and ECA (Economic Cooperation Administration, later MCA—and one can guess what the "M" stands for), the OAS and Alliance for Progress, SEATO and, much later, the Asian Bank. And behind all these, both to secure American investments, markets and resource needs, and to gain cooperation in protecting the dollar, stood the World Bank, the Fund, and the Export-Import Bank.

These and other institutions brought the European and Japanese economies back to life and were associated with their great spurts from the mid-Fifties on, during which they used so much of the U.S.'s investment capital, and capital and consumer goods. Between domestic military production and expenditures made abroad and those coming from abroad, our economy was able to maintain virtually uninterrupted expansion from 1941 on, in a context both requiring and making possible a consumeristic society.

Not only did we put together an expanded empire in the process, but we also put together what seemed to be an unbeatable military force to keep it going—while also appearing to persuade the American people that their security was outdone only by their material well-being. Some persuasion was necessary, for the principal financing of the American glory was provided, as always, by those least able to afford it. It was done through the democratization of the income tax, as old Ike called the compression of rates (up from the bottom, down from the top), and by the proliferation of sales and excise taxes, a process that began under FDR and that has gone about as far as it can go. Maybe.

The 25 years since World War II have lifted the real per capita income of Americans—as indeed was essential if the productive capacity of the economy was to grow as it did. In the years after 1965, however, when the Vietnam war was escalated, the rise in real income for the bottom four-fifths of the population ceased, but the hitherto acceptable costs of having that happen (rising prices and taxes) did not.

But doesn't war stimulate the economy, provide jobs, and (setting politics and morality aside) make things economically good? Under specified conditions, the answer is yes; but those specified conditions have not been met in the past few years. One of those conditions, the one that enables inflation to be minimized, is that the people must be willing to pay taxes that involve some kind of conscious diversion from consumption to war. But our involvement in Southeast Asia was originally hidden, and when the bombing of North Vietnam began and it couldn't be hidden anymore and couldn't be justified in comprehensible terms, the Indochina war also became unpopular. Could LBJ go to the American people and ask for a war tax that would hold down inflation? He could; but what he would have gotten would not have been the taxes, but an opposition to the war coming not only from long-haired students, religious freaks and others on the fringes, but also from business and labor. Assuming LBJ really believed the war could be won sometime in 1966, or surely in 1967 (and certainly by 1968, because those little yellow dwarves—as he once called the Vietnamese—would be sent to their knees), it is all the more understandable that he would let the economy ooze up into really serious inflation—and turn a few tricks to mitigate that which, like the war, would be secret. The best-known trick was selling offshore oil leases (in 1967) for revenue, those same offshore properties that now have an ooze of their own.

In short, the proper fiscal policies to support that war couldn't be pursued in 1967. When the ten per cent surtax finally came in 1968, it was not only too little and too late, but it also began to add to the economic weakness of the majority of the population, whose real wages had already begun to fall in 1965. On top of this, "buoyant" economic forces from the military were not generalized throughout the economy as much as in earlier, less fancy wars; they are now concentrated into a smaller number of capital-intensive industries—electronics, aircraft, submarines and so forth. War just doesn't do as much for jobs as it used to. . . .

After Nixon took office, a rise in unemployment was taken as both predictable and desirable, for he and his economists quite deliberately chose that route as the only way to curb inflation. In his (and now almost everyone's) offensive terminology, "The game plan called for a trade-off." The game, for Nixon, is one of conservative politics; and in a big business society, that means it is unquestionably desirable to take a rise in unemployment in order to halt price increases. (I recall a full-page ad from the Guaranty Trust Company in the financial section of the New York Times during the recession of 1957–58 which had the piquant headline: "What's Wrong with a Little Recession?")

Between poor advice and unconcern, the Nixon Gang bravely faced the possibility that unemployment might rise *briefly* to as much as 5 per cent from its 3.4 per cent level in March 1969. But now it is clear that the *rise* in unemployment is not going to be brief (nor as "acceptable" as five per cent), while the inflation impulse has not responded to the prescribed medicine. So we move into the worst of both worlds, as economists (like the generals in Vietnam) fight an earlier war—which was also fought badly.

HOW COME ALL THIS? Part of the answer is that in today's highly organized economy, the nature of anti-inflationary policies is such as to increase, not reduce, inflation; and that, for related (and additional) reasons, the planned-for contraction is taking on an unexpected heaviness which now seems likely to become quite serious.

The major reason that recent anti-inflationary policies have in fact *promoted* further inflation is that the monopolistic structure of the most vital markets transforms the customary meaning of a particular monetary or fiscal policy. Economists old enough to know better forget what they once learned; and the younger economists, having learned to run without knowing how to walk, have even less reason to know better.

As we examine why recent anti-inflationary policies have in fact fueled inflation, bear in mind that we shall be arguing that the Nixon Administration's politics and political commitments mean that just those policies that would be effective against inflation (and also generally desirable) cannot be seriously considered. No politician knowingly chooses such a painted-in corner if there are realistic alternatives. But standing in the way of practical anti-inflationary options are all the forces of power and privilege in American society.

Thus (to go back to the days when the problem was smaller and more manageable) the LBJ surtax not only allowed the rich to avoid it but did nothing to reduce their spending. For the lower income brackets, the surtax meant reduced consumption expenditures. However, in the heyday of inflation (from 1967 on), the most inflating sectors of consumption were in services or luxury areas (e.g., when the demand for the lower-priced cars softened, the higher-priced models took up the slack). In production, the surtax therefore had little effect on aggregate consumer goods production, and it was not intended to have any effect on capital goods or defense production.

When he took office, Nixon began a vigorous policy of monetary restraint. Was the subsequent speed-up in inflation rotten luck of some mysterious sort, or something not mysterious at all? Nixon sought higher interest rates and limits on the growth of the money supply. This brought two things down—the stock market, and the average person's ability to buy. (The stock market began its long decline just as Nixon picked up the gavel; and it is fascinating to correlate each Administration announcement on why the economy has turned the corner, with the invariable decline in the market the next day.)

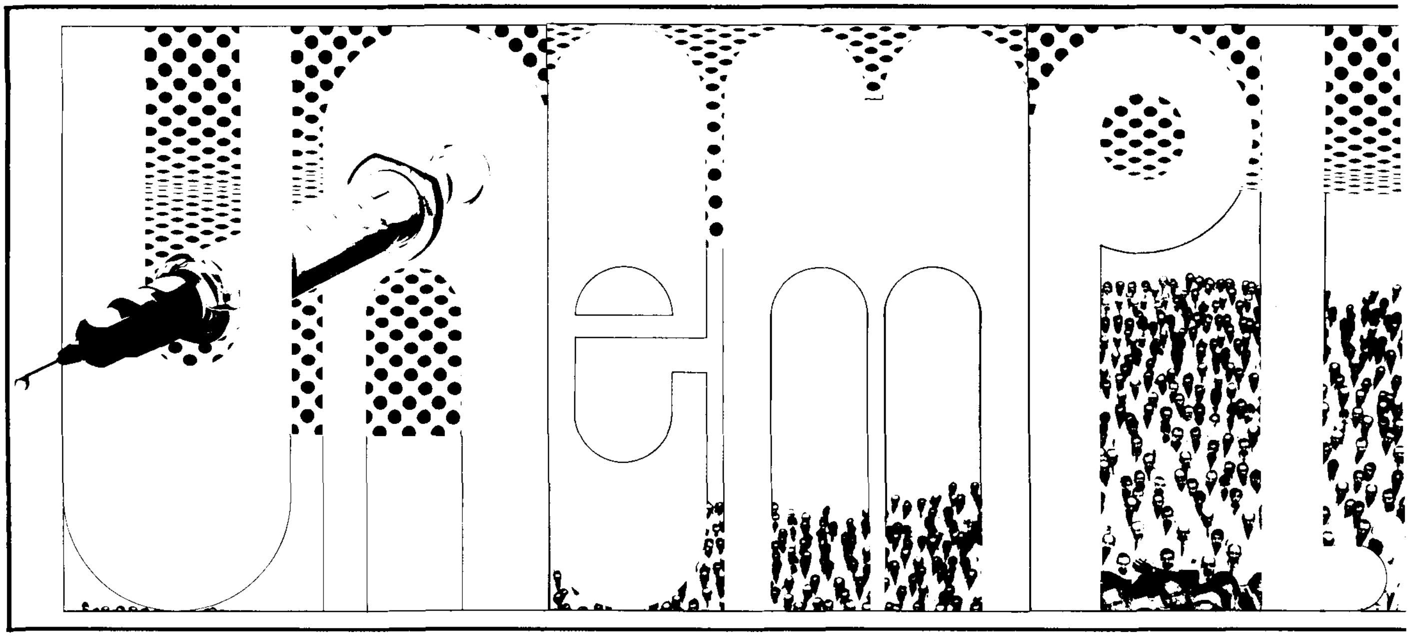
Sympathy for the stock market will not be expressed here; but what about higher interest rates? What about Joe? The higher rates have to be paid out directly or indirectly by Joe for everything he buys, and especially for the items that count most in the economy (cars, appliances, houses). But higher interest rates are passed on by the corporations that produce most of what Joe buys, as are his higher wages (when he can get them). The passing-on process is another name for raising prices—i.e., increased inflation. Thus, *given a monopolistic economy,* an anti-inflationary policy that depends on higher rates of interest means that price inflation will be increased. That is what has happened, and the way it happens is nicely revealed when we note the combination of increased car prices (twice in 1970) with sagging car markets—by no means an isolated instance.

LBJ's political "logic" was thus refined by Nixon, who moved swiftly to replace inadequate direct measures with indirect (and mysterious, to the public) monetary measures. As a good conservative, opposed to all progressive income taxes, Nixon reduced the surtax and put upward pressure on interest rates—the prime source of income to the pillars of finance, and no burden at all to the corporate brethren.

So the inflation continues, and will until the economy slows down enough to rein in the price pushes of the mighty. We have not yet reached that point.

What about unemployment? Is it as bad as it seems, now that it stands at over six per cent? Indeed it is, and considerably worse, if the future is our question. It is worth pointing to some of the major problems obscured by our obsession with the raw statistic: (1) the aggregate rate, which is officially only a fraction of the higher rates for non-whites, the young, and women, is a serious understatement because the sampling process systematically neglects the oppressed and the economically marginal, and because of the definition of the unemployed—those seeking and failing to find work—and people in the foregoing categories finally cease trying, from bitter experience; (2) the rate of unemployment tells nothing of the loss in purchasing power that comes about as overtime disappears, as part-time intrudes, as commissions and salaries are cut—that is, as people go on working, and are thus "employed," but as they reduce their spending, which means less employment for the rest of the economy; (3) the very fat economy that has grown up in the past decade or so can stand a lot of trimming and still go on producing; but that trimming means reduced expenditures for research, advertising and, among other things, expense accounts. It also means that weak firms go under.

IF SUCH ARE THE REALITIES, why the devil-may-care frivolity of professional commentary? Far from being exceptional, the self-imposed and dangerous ignorance of the experts is both normal and functional, at least in its origins. Like everything else in this society, the way in which



trouble is measured is designed to give the warning signals necessary to protect those on the top, not those on the bottom. The best arguments against inflation are those that presume to protect the weak and the innocent; but if that were the real focus, presumably policies would be designed that would place effective constraints on the powerful and the sophisticated, who make the inflation and keep it going.

It seems remarkable that all this could go on without serious comment by the economics profession, except that we live in a world where much of the same sort of thing happens in all sectors of society—where, that is, the hinges come loose, and the experts don't notice, or else see the statistically normal as a continuing flow of aberrations. So it goes with the Indochina war, the mounting fiscal and human crises of the cities, the lunacy of our entire educational system. This is to say no more than that the experts (and that includes the paid commentators in the media) are near the top of the power system, as comfortable as can be. And how could a system that put them there have anything fundamentally wrong with it?

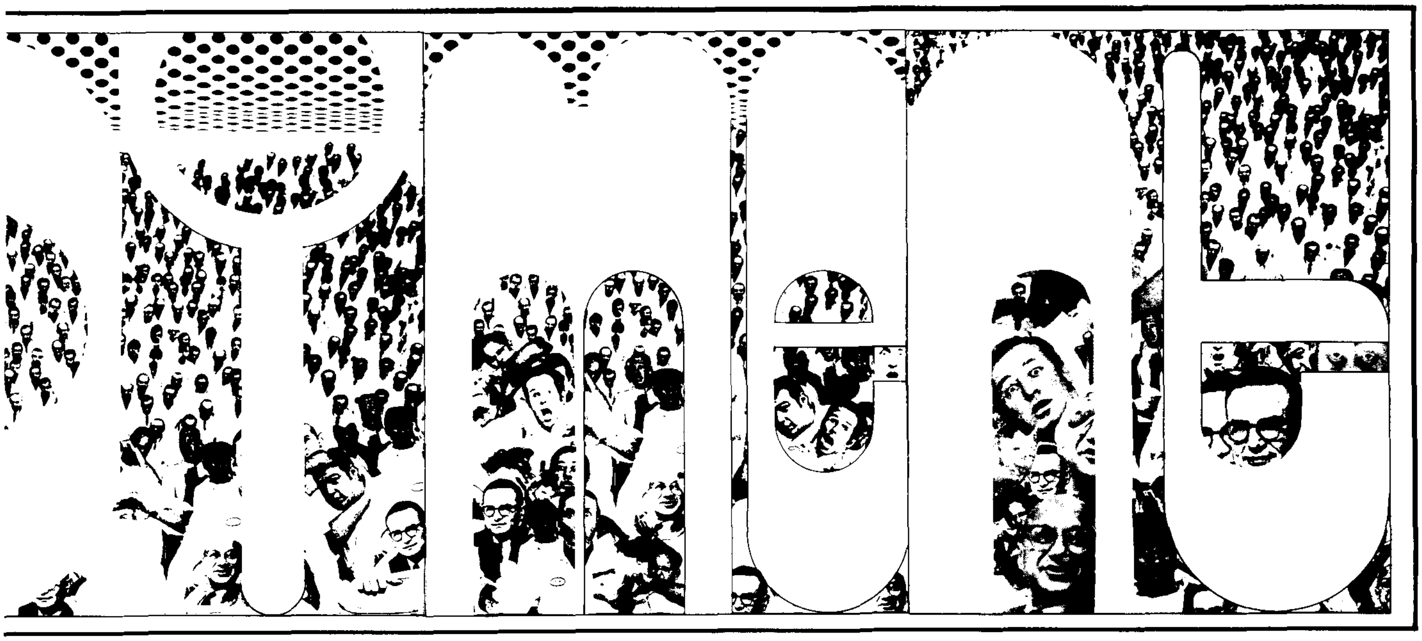
This brings us naturally to examine the central power system of our society, which inheres in its Big Business sector. Is it possible that even these omnipotents are falling on hard times? There are signs that tend to be compelling, but they are perhaps no more than signs at the moment. What does it mean that Chrysler, Penn Central, Lockheed, Transamerica, the giant airlines, Ling-Temco-Vought and a whole range of lesser lights hang out so much dirty laundry these days? Is it because there is a slight recession? Or is it because the economic euphoria of the post-war years has led to deadly carelessness in all aspects of decision-making at the top? ("Aspects" means, here, production mix, research expenditures, financing policies, advertising programs, hiring, accounting, investment policies and, I am sure, much more.)

Irving Fisher, the Samuelson of the Twenties, became immortal when in 1928 he proclaimed, "The business cycle has been solved: we are on a high and permanent plateau." Businessmen may have been lulled into a similar mood by income statements over the past 20 years (not to mention the pontifications of Establishment academics). One sign of this relaxed attitude has been in the realm of capital expansion (i.e., investment in new plants and machinery) in the past two years. When industrial production began to fall steadily in 1969, capital expansion plans, far from declining (as would be expected in such circumstances), continued to rise—and this in the face of utilized capacity rates that fell from 85 to 80 to below 80 per cent. Now that the rates are down around 75 per cent, the latest surveys show that investment plans—the heart of business expansion and general prosperity—are moving toward zero increase compared to last year. Memories are improving as profits decline.

UNTIL YESTERDAY, THEN, there was a growing inclination for businessmen to forget what they used to know in their bones: capitalism is a fierce system for all concerned, and it's each for himself and God for all. The delusion was understandable, given the immense power of post-war American capitalism compared with the weakened economies of Europe and Japan, the seemingly open pastures of the Third World, the marvelous and continuing stimuli of the Cold War, the passive acquiescence of a once-combative trade union movement, and the total absence of any ideological or political group to contest with business for control of the society or control of the State. All this and more lulled businessmen into taking longer and longer gambles, even while the basis for such gambles was being systematically eroded.

The Europeans and the Japanese recovered from their World War II devastation and are stronger than ever; the Third World peoples keep increasing the costs of empire and decreasing its benefits; the Cold War stimuli go on, but now defensively, and with an impact confined to fewer and fewer corporations—and the rate of *increase* of expenditures (a vital statistic) is down sharply; the acquiescent trade unions, under the impact of falling real wages, have begun—if in their limited ways—to cause real trouble (GE, Teamsters, UAW, the rail unions, and next the steel, can and aluminum workers); and if there is no ideological grouping to seek

Collage by Iver Flom and Barry Shapiro



power, there are the non-whites, the young and the poor who reject the standards of the society and the authority of the State, and whose efforts will require an unprecedented — and I believe unsuccessful—resort to coercion. Everything comes unstuck in ways that are beyond the capacity of a Nixon to put together again, try as he will. It now begins to look as though any policy change will create two problems, two political enemies, for every one it resolves. Poor Richard.

It is the ways in which Nixon tries (and will try) to solve all this that are of most relevance. He cannot develop the needed policies. Coercion and repression may or may not put the quietus on domestic activists, but they will not soon lift the rate of utilized capacity to 90 per cent; nor reverse the deteriorating technological-competitive position of the U.S. vis-à-vis Japan and Western Europe; nor provide the four million additional jobs—or eight per cent real rate of growth—needed in the country over the next year or so just to keep even. Nor will protectionism work to bring vitality to the American economy. The U.S. is in a position where its long prosperity and dominance have left it to rest on its oars, forgetting that in a world of national capitalist—to say nothing of hostile socialist—states, the race is never over. No rest for the wicked, as my mother used to say.

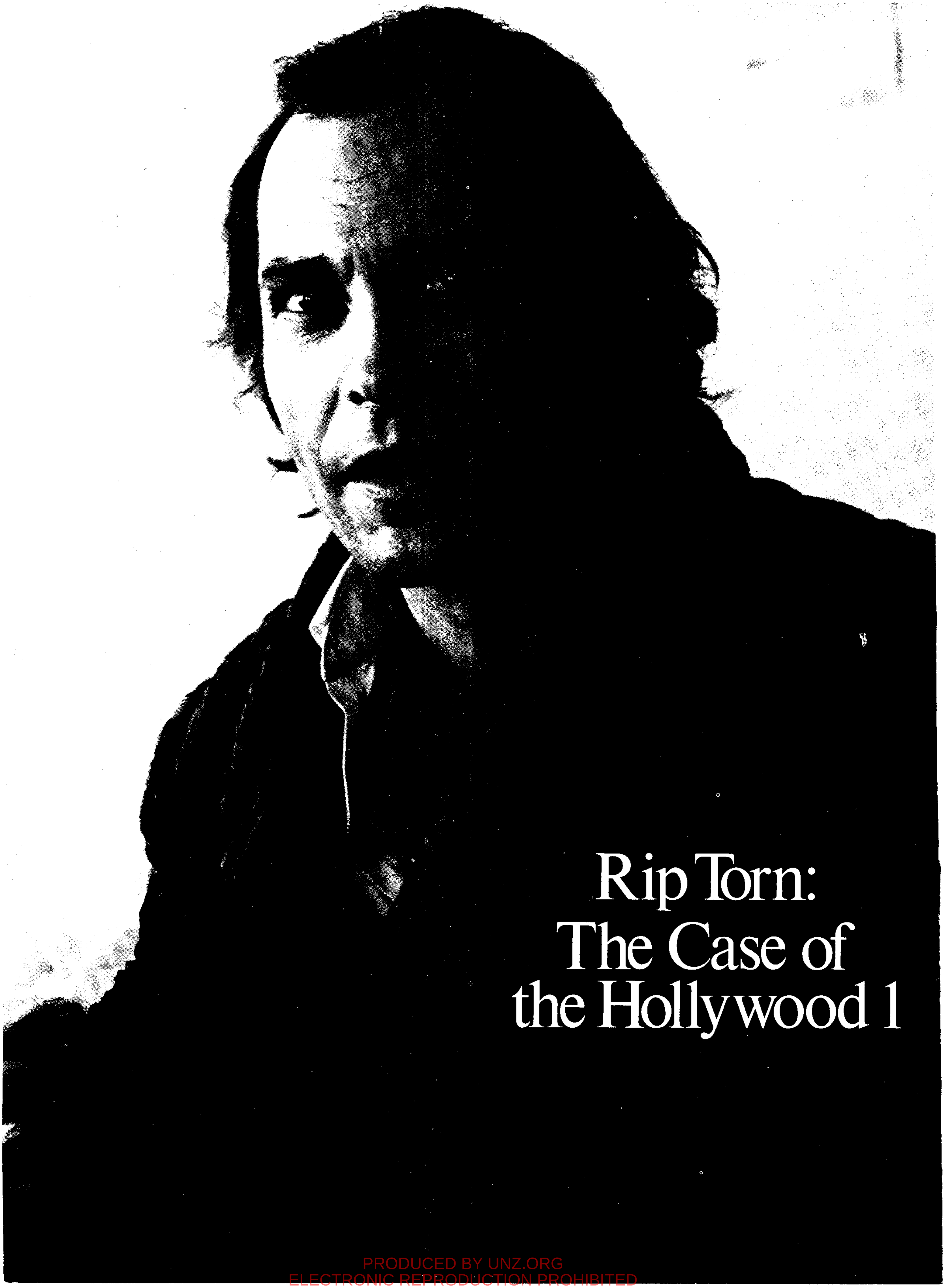
Even if we had a New Deal Administration in power, the kinds of policies now needed would not be forthcoming—as they were not in the Thirties. But we have something quite different in the Nixon Administration. As an administration that came to power, and that tries to maintain its power, on the basis of socially and economically reactionary promises, neither the Nixon Administration nor its satraps throughout the country has the inclination or the ability to move in the needed directions.

SPECIFICALLY AND NARROWLY, what kinds of policies are needed to lift the economy out of the stagnation into which it gradually sinks? "Defense" will not do, not anymore, either on political or economic grounds. Highways? No. So it comes down to policies that would be a great enlargement of anything ever attempted by FDR: really large-scale, really low-cost, housing projects; rebuilt cities; transformed schools; a vast increase in health facilities; and so on. In different terms, a *planned* budget deficit of from 30 to 50 billion dollars is necessary, and soon. From *Nixon?* From the present pattern of power, private or public, in this country? Never. From the present pattern of politically effective attitudes in this country? Of course not.

In short, the economy is falling into ever deeper trouble in its micro and macro aspects, in its financial strength and its liquidity, and in its foreign economic dealings. The policies it would take to get us out of these troubles—for it will take *policies* to do the job—are doubtless outasight for those who would most benefit from them; but those who presently have power are out of sight of such policies.

All this sounds scary. It is. But all this provides an enormous set of possibilities for a genuine radical movement. What was set in motion by young activists in the past decade (and has fallen apart so badly in the past two years) now can and must be revived in new and strong forms. The Movement of the Sixties was informed mostly by moral indignation. For its pains, it got a Nixon and increased repression. To become a movement that will change this society in humane directions, the Movement must join its moral and social concerns to a program that focuses on the death-dealing qualities of the American economy—not just for the ghettos and the youth culture, but for all who work for a living, whether with blue or white collars, and of whatever color or sex or continent. At the very moment when the prospect for such a movement seems bleakest, it is, for the same reasons, closer to our reach than ever before. To grasp that opportunity will require more work, more seriousness, more humility, more thought, and more understanding of this society and its people than either the Old or the New Left has yet put forth.

Doug Dowd is a professor of economics at Cornell University and is currently Visiting Professor of Economics at the University of California, Berkeley.



Rip Torn: The Case of the Hollywood 1