The state of the economy

As chairman of the University of Nebraska-Lincoln's economics department for the past six years, author of several books and many articles and past president of the Midwest Economics Association, Wallace C. Peterson is a nationally recognized economist. The 50-year-old professor, a former newspaper reporter who has been an NU teacher off and on for the past 20 years, is a perceptive observer and critic of the nation's economy. The Daily Nebraskan asked Peterson to write his analysis of the current situation in America's economy. Here is his commentary.

by **WALLACE C. PETERSON**

As the first quarter statistics rolled in they indicated that a recovery from the recession is underway, even though the economy remains sluggish and the pace of the revival may be slower than in any earlier post World War II slumps. The chief reason for optimism was that the gross national product rose during the first three months of 1971 at an annual rate of 11.5 per cent over fourth quarter figures of 1970, although almost half of this increase was accounted for by price increases rather than any gain in output. How much of the first quarter improvement was a recovery from the strike-depressed fourth quarter of last year is difficult to determine.

On the debit side, there has not been any change in the unemployment rate, which remained stuck during April at 6.1 per cent of the civilian labor force. Of special significance are the unemployment figures for nonwhites and teenagers, both of which continue to be much higher than the average for the entire labor force. During the first quarter the nonwhite unemployment rate averaged 9.5 per cent, up from the 8.2 per cent rate of 1970, while the teenage rate (16-19 year olds) was also up from last year, averaging 15.7 per cent for January through March in contrast to an annual rate of 15.3 per cent last year.

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Unemployment among nonwhite teenagers reached a staggering 31.7 per cent during the first quarter of this year! Bringing these unemployment rates down is a formidable task, particularly in view of the fact that the rate of growth in the civilian labor force accelerated in 1969 and 1970, primarily because of the winding down of the war in Vietnam.

SOFTNESS IN the economic recovery is also reflected in the fact that industrial production failed to show any gain during the first quarter; the Federal Reserve Board index shows that industrial output is still about 5 per cent below the peak reached in mid-1969. The Federal Reserve's index of capacity utilization in manufacturing averaged 73.1 per cent for the first quarter, a figure slightly higher than the fourth quarter of last year, but still below the overall rate during 1970 of 76.6 per cent. For 1948-1970 the utilization rate in manufacturing averaged 85.2 per cent.

Year's end in 1970 brought an abrupt shift in economic policy by the Nixon Administration. The much-heralded "game plan" that dominated economic policy during Nixon's first two years was quietly dumped in favor of a more activist stance with the President openly praising deficit financing as an important tool for economic management. Symbolically the change dates from Nixon's astonishing statement to newsmen early in January that he "is now a Keynesian."

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Paul McCracken, Chairman of the President's Council of Economic Advisers, was the architect of the "game plan" a program which sought through a delicate combination of reduced government spending and tight money to "cool" down the economy enough to slow inflation, but not so much as to cause too much unemployment. By last December it was apparent the plan had failed, for unemployment rose during the year by more than 55 per cent (from 3.9 per cent of the civilian labor force in January to 6.2 at the end of the year), without any appreciable effect upon the price level. Consumer prices jumped during 1970 by 5.9 per cent.

IN HIS RECENT budget message the President indicated in two ways that a basic policy shift was under way. First, he pointed with a measure of pride to an estimated budget deficit of $11.6 billion for fiscal 1972 as proof that his administration is committed to an "activist" role in managing the economy. Second, he accepted the concept of the "full employment budget." According to this view, what really counts is not whether the accounts of the Federal government are in deficit or surplus in any given year, but whether they would be in deficit or surplus *if* the economy were at full employment, usually defined as no more than 4 per cent unemployment. The President expects the budgetary deficit plus an expanding money supply to generate enough expansionary steam to boost Federal tax revenues so that the budget will really be in balance by July 1, 1972.

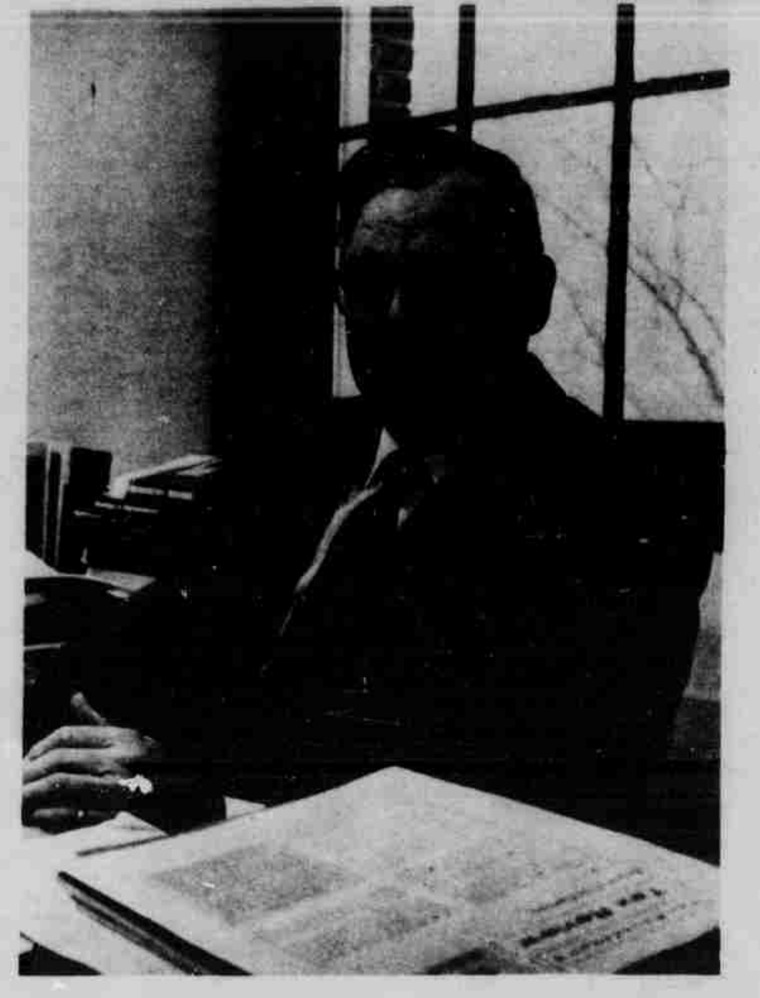
By moving from a program of restraint to mild stimulus, the Administration has clearly decided that bringing down the unemployment rate is more important than controlling inflation, even though lip service is still being paid to the latter objective. By mid-1972 the Administration says the unemployment rate will be down to 4½ per cent and consumer prices will be rising at an annual rate of no more than 3 per cent, a prognois that finds few takers among economists and financial experts outside Administration circles. Like the earlier "game plan", the Nixon program for actually reaching these objectives rests on faith and hope that talking about policy will do as much as policy itself to get the job done. This is especially true in the crucial matter of getting full employment without re-kindling strong inflationary pressures.

Even though the current recovery is shaky and sluggish, there is no reason to doubt that the economy eventually will respond to the stimulus of expansionary monetary and fiscal actions, even though it is highly dubious that an expansion can be managed without more inflation. But our present economic difficulties are like the tip of an iceberg because most of the really serious economic troubles and distortions which beset the economy remain concealed from the public consciousness. Not only are we unable three decades after the "Keynesian Revolution" to solve the essential problem of how to get full employment without an unacceptable rate of price inflation, but it is increasingly evident that the American economy does not operate in a way that distributes jobs, income, and reasonable affluence to all the population. The blunt fact is that roughly one-quarter to one-third of American households have incomes that are substandard in terms of any reasonable estimate of the potential affluence of the American economy. To illustrate, more than 30 per cent of American households have incomes of less than $6,000 per year, even though the Bureau of Labor Statistics says that it requires an income of at least $10,000 for an urban family of four to maintain a modest but adequate standard of living!

THE INABILITY of the richest and most productive economy in human history to achieve a decent standard of affluence for *all* its citizens is a scandal, neither easily explained or corrected, but at least three serious distortions of long-standing appear to be at the root of the matter. The first is the excessive concentration of income and wealth in the hands of a relatively small segment of the population; the second is the distortions wrought by the diversion of nearly 10 per cent of our real putput to military purposes for at least two decades; and the third is our failure to face head-on the issues raised by the monoply and the concentration of economic power in key sectors of the economy. These issues are not really new, but few political leaders in our national life are willing to address themselves to them. Space limitations allow comment on only the first of these, although the latter two raise equally serious questions of public policy as subsequent discussion.

According to the recent date compiled by Herman P. Miller of the U.S. Bureau of the Census–author of *Rich Man, Poor Man*– the wealthiest 20 per cent of families receive 48 per cent of total income, whereas the poorest 20 per cent receive but 3 per cent of total income. At the top of the scale, families with an annual income of over $29,700 comprise but 5 per cent of the population, but receive 22 per cent of the income

OWNERSHIP is more concentrated, for according to recent research by professor Robert Lampman of the University of Wisconsin, the top 1.8 per cent of the adult population holds 28 per cent of the nation's wealth, but the lower 50 per cent has only 8.3 per cent of the total. Contrary to some beliefs neither income nor the ownership of wealth is becoming more widely and fairly distributed in the American economy. On the contrary, studies by Miller show that there has been no significant change in the distribution of income since World War II, and Lampman's findings suggest that ownership of wealth is becoming more rather than less concentrated.



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What accounts for this? There is no simple explanation, but part of the answer lies in the perverse way the total tax system operates in the United States. Popular belief notwithstanding there is precious little progression in our tax structure. Even in the Federal system the degree of progression is probably far less than many people imagine, while state and local taxes are extremely regressive in their impact. For example, the effective Federal tax rate–the per cent of income actually taxed– is practically identical for families with incomes ranging from $2,000 to $25,000, although some progression creeps into the rate structure when income gets above $25,000. For state and local taxes the effective rate actually decreases from an average of 15.7 per cent for families in the $2,000 - $4,000 bracket to an average of 6.7 per cent for families with an income of more than $50,000! If lower income families did not get some help through social security, unemployment insurance, medicare, and welfare, the situation would be far worse.

Another part of the explanation lies in the fact that in both agriculture and manufacturing gains in productivity far outstrip the spendable income being received by farmers and workers. The situation is especially acute in agriculture, where, according to Bureau of Labor Statistics, output per man has increased by a staggering 287 per cent since 1947, but *real* income per farm (money income adjusted for price changes) went up by only 38 per cent. It is little wonder that rural America is in deep economic trouble. In manufacturing, a growing gap between *real* hourly wages and productivity developed over the last decade, a gap that cannot be accounted for wholly by a growth in fringe benefits, but probably reflects the growing and disproportionate burden that payroll taxes play in the American economy. The ethic of a market economy says that there ought to be a rough relationship between the incomes people actually receive and their productivity, but these developments clearly suggest this is becoming less true.

If we reach back through history to the early years of this century, we find that our basic domestic problem today remains what it was then–excessive injustice in the control of wealth, income, political power, and social privilege–only now it is compounded by the inability of the economy to generate sufficient jobs at adequate incomes to permit all American citizens to participate in a productive and creative way in the economic life of the nation. This issue transcends the current economic difficulties and it will not disappear, even if the economic policies of the Nixon Administration get the unemployment rate down by the middle of next year.

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