The State of the Economy (II)

'Immediate Economic Task Is Full Employment Without Inflation'

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This article continues discussion of two themes developed in an analysis of the American economy appearing in *The Daily Nebraskan* last May. The themes were, first, our immediate economic situation, and, second, the more fundamental economic problems besetting this rich and troubled society.

In the May article it was pointed out that the headline-catching problems of inflation and unemployment are like the tip of an iceberg, being simply the most visible part of deeply-rooted distortions in our economic life. These distortions are the root cause of the inability of the world's most productive economy to provide jobs, income, and reasonable affluence for *all* its citizens. Our most immediate economic task is to get full employment without inflation, but a workable solution to this problem will continue to elude us until we face these fundemental issues. Essentially these are the excessive concentration of income and wealth in the hands of a relatively small segment of the population; the distortions in our domestic economic life that have resulted from diverting nearly 10 percent of our output to military purposes for more than two decades; and, finally, our willingness to confront honestly and fearlessly the challenge to a free society posed by monopoly and the excess concentration of economic power in key sectors of the economy.

The nature and consequences for the economy of an excessive concentration in income and wealth was analyzed last May. In this article the distortions caused by military spending and monopoly power will be scrutinized.. First, though, some comments on our current situation are in order.

Dr. Wallace C. Peterson

The Economy in Mid-Summer

Like soothsayers of old, modern day forecasters pore over quarterly gross national product figures and other data not only to determine the current state of health of the economy, but to discover what the immediate future portends. Well, second quarter (April through June) statistics are now in and what do they tell us? Unfortunately, no clear picture emerges as to where the economy is really heading, although the hesitant and sluggish recovery that got started in the first quarter continues, even though it hasn't much punch. From April through June total spending (gross national product) increased by $19.7 billion at annual rates, a figure about $10 billion less than the first quarter gain. When price increases are discounted, the second quarter gain translates into a 3.5 percent annual rate of increase in actual output, a rate of gain that won't make any real dent in unemployment. The latter remains at the unacceptably high level of about 6 percent of the civilian labor force. The prognosis looks like more rather than less unemployment before the year ends, especially as veterans enter the labor force with winding down of the Indochina war.

And what of the inflation battle? The first half of the year saw consumer prices increase at an annual rate of 4 percent, down from the 4.9 percent rate in the last six months of 1970. In May and June, though, prices rose at annual rates of more than 6 percent, comparable to the inflation pace set during 1969 and early 1970. The prospects for either outright price stability or a further slowdown in the inflation rate are not helped by the fact that for the fiscal year just ended (June 30, 1971) the Federal government's deficit jumped to $23.2 billion, the second highest deficit since World War II. Deficits of this magnitude carry a built-in potential for trouble on the price front, expecially for interest rates. The price outlook is further complicated by the fact that during the first half of this year the money supply grew at an annual rate of more than 10 percent, an event expected to have an inflationary impact 6 to 9 months from now.

Finally there is the cautious mood of the spending public. Consumer outlays account for approximately two-thirds of total spending in the economy, but the consumer spending spree which the Administration counted on this spring to get the economy moving at a more rapid pace has not materialized. Actually, consumer saving out of disposable income rose during the second quarter to a rate of 8.4 percent, the highest in 20 years. This indicates caution. Recent surveys of consumer buying plans show that consumers are not likely to loosen their purse strings very soon. As one economist commented, "Everybody is waiting for the consumer to spend the economy back into high gear, but the consumer appears to be waiting for the economy to turn around first."

Switches in Economic Policy

The last six months also witnessed significant policy switches by the Nixon Administration. Early in the year it appeared that the Administration had decided that getting the unemployment rate down was more important than bringing inflation under control. The reason for this was that the 1969-70 economic "game plan" failed to end inflation but created too much unemployment. Thus, the President's statement in January that he is a "Keynesian" plus his support for deficit financing as a key tool of economic management was widely interpeted to mean that the Administration was taking a more activist stance and would use direct measures to stimulate the economy.

But this was not to be. In late June Mr. Nixon announced that henceforth Secretary of the Treasury John Connally would be the chief economic spokesman for the Administration. Immediately Connally announced that there would be no wage-price review board; no wage-price control; no tax cuts; and no increase in government spending. At the same time Paul McCracken, chairman of the President's Council of Economic Advisors, admitted that the goals set by the Administration last January for growth, a reduction in unemployment, and a slowdown in the inflation rate, were unattainable. These developments, coupled with Secretary Connally's extraordinary statement that the target of a 4 percent unemployment rate is ". . . a myth . . . never achieved except in wartime" backed away from an activist stance.

This policy reversal probably stems from fear of the effects of the budget deficit for fiscal '71 plus gloomy forecasts that the deficit for the two year period ending June 30, 1972 may reach the staggering sum of $45 billion, totals unprecedented in peacetime. It also represents a victory for the economic ideas of Professor Milton Friedman of the University of Chicago, a strong advocate of the view that the money supply is the most important single factor influencing the economy. Thus, rapid monetary growth this spring will, according to Friedman, bring a strong upsurge in economic activity later this year.

Military Spending and the Economy

In most discussions of the economy's inability to get full employment without inflation, the skeleton in the closet of military spending is too often neglected. This is not to suggest that there is no recognition of the close correlation between military spending in wartime and inflation, for this is clearly not so. During World War II, the Korean war and the Vietnam war, prices rose more rapidly than in comparable nonwar years. What is involved is something more subtle, more difficult to measure, namely the cumulative effects upon the economy of diverting between 9 and 10 percent of the nation's output to the war industry for more than twenty years.

What are some of these effects? Kenneth Boulding, one of America's most distinguished social scientists, suggests that in a *qualitive* sense the impact is far greater than this 9 to 10 percent figure indicates. The reason is that, proportionally, there has been a much greater "brain drain" into the military sector, a development which has had highly adverse effects upon technological progress in important parts of the civilian economy, especially machine tools, shipbuilding, steel, textiles, and much of light manufacturing. Since the 1950's, for example, about one-half of all expenditures for research and development have been defense or space oriented. The long starvation of the civilian economy for research resources, including the services of talented scientists and engineers, may help explain why in the last four or five years there has been a decided slowdown in the rate at which output per man hour has grown. For a nation which ties its standard of living and ability to compete in world markets to rapid technological change, this development is ominous. The deterioration in our foreign trade balance stems partly from the fact that productivity gains in recent years for the U.S. have lagged behind those of Japan and western European nations.

An equally significant long term effect resulting from the diversion of so much of our output to non-productive military purposes has been the serious neglect of social investment in. the domestic economy. As is well known, the post World War II era has been one of rapid urbanization and population movement, changes which created an enormous demand for social investments in housing, educational facilities, transportation networks, including urban mass transit, and other basic facilities. In a complex and highly urbanized economy, it is probably that the need for investment in fundamental facilities–housing, transport, communications, education–probably increases at a faster pace than output and population. Since 1947 $1,093.3 billion has been spent for military purposes. It would be a romantic untruth to suggest that all of the output represented by this expenditure could–or should–have been used for other purposes. Given the fact that the world was–and remains–unready to substitute a system of law for naked force in the relations between nations, this was simply not possible. But it is equally important not to blind ourselves to the real costs in the form of the neglect of critical domestic needs incurred by our arms expenditure and our largely self-imposed role of the world's policeman.

Monopoly and the Concentration of Economic Power

The other hidden skeleton in the closet of the American economy is the distortions wrought by the monopoly effects which flow from the growing concentration of economic power. Since the 1930's, foreign affairs and fascination with an ever-rising gross national product have diverted public attention from the growth of concentrated economic power, even though this tendency may be as significant as any other in accounting for our inability to attain full employment without inflation.

What is the actual state of affairs in our supposedly highly competitive economic system? Willard F. Mueller, former chief economist of the Federal Trade Commission, told the Senate Subcommittee on Antitrust and Monopoly in 1969 that the 200 largest manufacturing corporations control about 2/3 of all manufacturing assets, a degree of concentration that Mueller did not expect to be attained until 1975 at the earliest. Other studies confirm that in probably half of the manufacturing industries in the nation, four firms or less accounted for at least 50 percent of the industry's total sales!

What is so bad about this? In the view of economists knowledgeable concerning the social and economic effects of industrial concentration, *effective* monopoly exists in an industry when four firms or less control 50 percent or more of the output of the industry. This is a workable economic definition of monopoly, not a legalistic one. One of the most widely accepted propositions in economics is that the existence of monopoly in an industry produces both higher prices and less employment and output, as well as less innovation, reduced technological progress, and frequently excessive and costly advertising outlays. Economic analysis supports the deeply-rooted American tradition that monopoly power is bad–bad for people, bad for the economy, and bad for society.

Our failure to effectively stem the growth of concentrated economic power–including proliferation of "conglomerates"–stems largely from the fact that under the anti-trust laws we have taken a legalistic rather than a practical economic approach to the issue of monopoly. Until we recognize, first, that the maximum benefits from technology and productive efficiency can be obtained in most manufacturing industries from firms that produce no more than ten percent of the industry's output, and, second, that we must view concentration and monopoly in an economic rather than legal sense, the prospects are dim for restructuring the economy so that a competitive market system works for the general welfare, rather than the special interest of the corporate giants which now dominate key parts of economy. The alternative is to saddle the economy with permanent price, wage and other income controls, if we ever hope to get continued full employment without inflation.

School Administrators Urged To Develop Meaningful Curriculums

A former Nebraska educator now a noted authority in the field of school curriculum urged a gathering of school administrators to get into the thick of the search for what is meaningful and beneficial for students of today.

Dr. Fred Wilhelms, executive secretary of the Association for Supervision and Curriculum Development, was speaking to an Administrators National Conference held July 26 through July 28 at the University of Nebraska - Lincoln.

"A helping curriculum is my dream," Dr. Wilhelms told a group of more than 160 school administrators from Nebraska and several other states at NU's Schramm Hall during the conference.

"A good curriculum should be warm and encouraging like a good teacher. It should help a youngster develop his full potential and learn his self-identity. I think we are on the edge of such a radical program," he said.

Dr. Wilhelms noted that Nebraska does not have the problem of the oppressive, stifling schools that faces many of the great metropolitan areas. He indicated, however, that the state has some catching up to do in its attitude toward minority groups, Blacks, Mexican-Americans and Indians.

Using the example of an English composition curriculum, Dr. Wilhelms proposed that the emphasis be shifted from correctness of form to true communication, and personal development.

"We want to teach the child to write in proper form but we also must encourage him to have something to say. We need to consider with him what he has said and to encourage him to be open and honest. "If he feels he is writing something meaningful and important, he feels he is truly showing himself and what he thinks, and if we acknowledge that what he thinks is important and has merit, this increases his self-knowledge, raises his self esteem and makes it possible for the teacher to help him in building values to live by."

Dr. Wilhelms was the furst of three national leaders in educational administration to address the conference. Dr. William Pharis, executive secretary of the National Association of Elementary School Principals and Dr. Forrest Conner, executive secretary of the American Association of School Administrators, also spoke.

The three-day meeting was sponsored by the departments of elementary education, and educational administration at the University of Nebraska-Lincoln; the National Association of Elementary School Principals; the Nebraska Association of Elementary School Principals and Nebraska Council of School Administrators.

Varner Appointed To Serve On State Dept. Committee

Chancellor D.B. Varner of the University of Nebraska has accepted an appointment from the U.S. Department of State to serve on the 12-member Joint Committee on Japan-U.S. Cultural Educational Cooperation.

A major function of the committee is to maintain continuity in educational and cultural activities between biennial conferences. These conferences have been held since 1961 as the result of an agreement reached by President Kennedy and Japan's Prime Minister Ikeda. The next biennial conference will be held in Washington in 1972.

Chancellor Varner will serve as a representative of the artistic fields. Among others on the committee are **William Cleveland**, president of Esso Standard Eastern, who represents the field of business; Edwin Reischauer of Harvard University, Japanese studies; and Professor Donald Shively of Harvard, an expert on Asian languages, representing academic fields. The committee members serve without pay.

An objective of the biennial conferences is to study expanded cultural and educational cooperation between Japan and the United States.

Student Scholarships Awarded

Seven University of Nebraska students have been named recipients of $1,000 Donald Walters Miller Scholarships for the 1971-1972 academic year.

They are Terry D. Cisler of Norfolk, Steven W. Erickson of Holdrege, Terri Hietbrink of Adams, Donald J. Hill of Lincoln, Elaine K. Monnier of York, Arnold W. Oltmans of Beatrice, and John W. Wagstaffe of Omaha. Named as alternates were Gary L. Dolan and Harlan Abrahams, both of Lincoln.

The selections were announced by Dr. E.E. Lundak, director of scholarships and financial aids at the University of Nebraska-Lincoln. The Millers scholarships are awarded on the basis of scholarship, educational and professional objectives and character.

They are made available through the University of Nebraska Foundation which receives income from a trust fund established by Mrs. Catherine Cline Miller in memory of her husband, Donald Walter Miller, who died in an airplane accident in 1939. At the time of his death, Miller was president of the Miller & Paine Department Store.