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Organize the dispossessed in community movements for economic gains. During the summer of 1964, one hundred and fifty students provided the full-time staffs for 10 community projects in the urban North—40 of them continuing full-time in the fall. Movements of welfare mothers, the unemployed, tenants, and others have been organized around their particular grievances.

Participate in activity for peace through protest, research, education, and community organization. SDS organized protests and proposed peaceful solutions during the Cuba and Vietnam crises; sponsors peace research among students; and is undertaking pilot efforts to organize defense workers for economic conversion.

Work for civil rights through direct action, publication, and support of the Student Nonviolent Coordinating Committee. SDS projects in Chester, Pa., and Newark, N.J., serve as models for Negro movements in the North due to their mass support.

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OUR CRISIS ECONOMY

by Ray Brown

distributed by:

Students for A Democratic Society
1103 East 63rd Street
Chicago, Illinois 60637

price 10 cents

confirmed this.) The question then is, when do we see the effect? It seems likely that the next business downturn will be the time. Reduced orders, lower profits, a rationale for the move both in terms of its employees and the public will all be present. The work force may be sharply reduced and on the next upturn the firm will find what the new labor requirements are. In terms of our economy, this means that over the last three and a half years of recovery, a great many workers may have been rendered redundant but not laid off. The effect of almost four years of automation may not really emerge until our next cyclical swing.

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Thirty years ago many economists and other social scientists had all but abandoned our economic and social system. Some were fearful of what might lie ahead; others were eager to seize the opportunity to reshape the nation's institutions. With the coming of World War II and the unprecedented prosperity of the post-war period such thoughts were set aside. Today with very few exceptions the beneficence and permanence of a capitalist or free market economy is unquestioned. Temporary difficulties are acknowledged but all these, it is believed, can be solved within our present framework. The remarks that follow take sharp exception to the prevailing optimism. The major conclusions are:

1) The prosperity of the past 20 years was based on a very special set of circumstances and cannot be viewed as the "normal" condition of our economy.

2) Some of these circumstances may be changing in ways which will seriously undermine the economy's strength.

3) Despite the obvious affluence in Post War America, large numbers of people remained impoverished throughout these years.

4) Scientific and technological development closely associated with World War II have led to cumulative change in our methods of production (automation): These developments, while potentially a source of great progress, are in part creating a most serious challenge to the existing institutional framework.

5) Other factors such as population trends and the defense economy will increasingly intensify rather than moderate the economic problem.

6) Thus far there has been little awareness of the problem and the current responses are therefore totally inadequate.

7) The situation can be characterized as one of crisis. There is no certainty as to the outcome—the opportunity for far reaching progressive social change exists but much creative planning and hard work will be required if this potential is to be realized.

RECENT ECONOMIC HISTORY

To appreciate the present position of our economy requires a brief review of past developments. Our starting point is the 1930 to 1945 period. The unemployment and general poverty of the 30's are well known. In 1939, America's income position was below that of 1929. Consumers bought few new homes, spending for household items was low and other durable goods were beyond the reach of most. Since there was little or no market for most goods, sales and profits were low; thus, there was little spending by corporations for new factories, office buildings, new equipment, etc. These conditions prevailed for more than 10 years, resulting in a tremendous backlog of needed goods by both consumers and businesses.

In the period 1940 to 1945, some of the above conditions changed but some remained the same. War brought full employment and overtime for many who had not worked in 10 years. Corporations worked feverishly to produce needed war material and had a long period of high steady profits. The working population, working more than full time, saved almost 25 per cent of their earnings in three of the war years, a total of over 100 billion dollars. Businesses also accumulated vast amounts. The similarity between this period and the depression was in consumption. Few new cars, houses, or refrigerators were produced during the war. The factories and equipment to make these items were also not produced. The peace time needs of the country were not satisfied.

In 1945, consumers and corporations had 15 years of unfilled needs. They also had vast savings from the income produced during the war with which to fill these needs. Another factor was the condition of the world. The war left vast areas completely destroyed. The American economy was intact and we were in a position to provide most of the needed goods to rebuild the world.

Thus in 1945 the stage was set for a vast expansion of our economy. Before turning to post-war developments it must

The optimists usually employ one of three arguments: (a) Automation creates more jobs in the process of making and servicing the new equipment; (b) Automation creates new products and markets thus expanding employment; and (c) The sectors of the economy—sales, clerical, and service—will absorb all the new and displaced workers just as manufacturing absorbed displaced farm workers after the turn of the century. Unfortunately, none of these approaches is convincing. First, automation would not take place if it involved more labor to make and service the new machines. This argument would hold if our world were populated by entrepreneurs whose goal was higher costs and not higher profits. The second explanation is far more plausible—technical innovation often involves new products as well as labor saving. For example, a computer that displaces a number of clerical workers may also employ a programmer to do jobs the company could not have done before. Here both developments occur simultaneously. What is important is that there is no automatic connection between these two facets of technical progress—they are independent of each other. Vast labor saving may take place without any new products, new markets and new employment. The evidence that the labor saving quality is of increasing importance is impressive. First, as our catalogue of material products get larger (increased affluence) the potential and the desire for new material products may decline. What is even more significant is that as our technology advances, it becomes increasingly unlikely that new products will employ labor intensive techniques. While one cannot completely reject the new product argument, there are strong reasons to suspect that relatively few new employments will be provided by such developments. As to the expansion of service and clerical industries, it should be noted that automation is already moving into these areas. A recent survey conducted by the Wall Street Journal showed that many insurance companies, banks, and other financial institutions were in a position, as a result of recent automation, to absorb up to 30 per cent more work without expanding their workforce.

One final observation on technical progress. Some have expressed surprise that employment has held up so well over the past few years given the fact that a good deal of new supposedly labor technology has been installed. One cannot be certain, but there may be no reason for surprise. There are good reasons to expect that as a firm or industry introduces new technology, more rather than less employment employment will be the immediate result. Workers are required on both the old and new systems—especially true when business is good and orders must be filled. Some time may elapse before all the bugs are worked out of the new set up. The firm also does not know what its new labor requirements are. Thus, given the above conditions plus good profit and a desire for a good public image, automation layoffs may not take place. (The Wall Street Journal Survey of their disposable income to repay debt and economists have long since forgotten the magic 10 per cent formula. Just as consumers expectations are important in determining the course of the economy, business expectations must also be evaluated. How do businessmen see their markets? Will they expand their plant capacity? Even if their market is not expanding, have the techniques of production in their industry changed so as to make it highly profitable for them to invest in new plant and equipment?

If the questions posed above could be answered with some degree of certainty, we would be much closer to being able to state the limits of our present prosperity. In projecting labor force and employment trends as was done in the economy paper, a narrow time context was not intended nor were any percentages endowed with magical qualities. The argument was simply that the trends discussed were at work and in the absence of intelligent well-planned intervention, economic chaos would ensue at some point in the not too distant future. In 1965? in 1967? in 1970? —no one can tell.

B) If the timing problem is uncertain, so also is the question of necessity. Must the crisis occur? If a tax cut and poverty program are possible, why can't government intervene with more effective long run programs?

Answers are again vague and less than satisfying. Clearly a collapse is not an absolute necessity. Economists as technicians can develop programs to solve the economic problem. The real question, however, concerns power and politics. If, as this author believes, substantial change in our economic, political, and social institutions is required, will these changes be ushered in by the existing power structure when to do so will undoubtedly compromise and greatly diminish its power? Can pressure, outside or in selected areas in the power structure develop (in the absence of economic collapse) to a sufficient degree to impose the needed changes (the role of SDS?)? If collapse does come, what will emerge in the way of a new social order? (a frightening question given recent political developments)

Another question is whether gradual deterioration rather than collapse is not possible. Can we have a society where some can live in increasing affluence while a larger and larger human slag heap develops? A measure of such economic polarization is obviously possible (it appears to have begun already). However, given an economy which is so dependent on mass consumption, the limits of polarization may be quite narrow.

C) A considerable number of questions have developed around the problem of automation. Why does this analysis see it as such a threat while most economists view it largely as an unmixed blessing.

be stressed that the situation in 1945 was very unusual. A crippling 10 year depression and five years of world war are hardly conditions to be classified as "normal." Failure to recognize these special circumstances led many to expect a return to depression after the war (this included many top economists). It is ironic that in 1945 failure to understand these unique factors led to fear when there was no cause; while today, failure to recognize these same factors permits optimism when there are real grounds for fear.

THE POST WAR ERA

Since 1945, except for an occasional slowdown, spending for homes, cars and other durables by consumers and outlays by corporations for new plants and equipment, have been very high. Over a million new houses a year, tens of millions of cars and other durable goods have been produced and purchased. Thousands of new plants and many billions of dollars worth of equipment have been purchased by corporations. The question is whether these two important foundations of the post war boom are weakening. During the 1958 recession there was a momentary awareness that the housing boom might be slowing down. A prolonged break in the market did not materialize and fears quickly faded. At the same time there was some concern over the problem of over capacity in many industries which might lead to a slowing down of business investment. Again the concern was momentary but the potential problems continue to exist. Another area which may soon slow down is the consumption of consumer durables (washers, autos, TV's, etc...). Many of these products were developed in the years immediately following the war: they may soon have run their course. If the markets for these products on which our mass production industries depend so heavily stop expanding and become simply replacement markets, the economy will be in serious trouble.

Finally, the last special condition of 1945—the needs of a war-torn world. For years, American exports of goods ran well ahead of imports, reflecting the great needs for our goods in foreign markets. Today, Europe and Japan, etc., are rebuilt and no longer require many of our goods and services. In fact, their factories are sharply competing with our own. The recent concern over trade policy, the cry to hold the line on wages, seem clear indicators of a change in the situation.

Summarizing the situation in 1963, we find that so far as the peacetime sector of our economy is concerned (this sector, despite great defense expenditures, is the mainstay of our prosperity), the great consumer, corporation and world markets of 1945 have undergone substantial change. Many of the vital needs of 1945 have been met and unless new areas of expansion are developed, we may soon be in serious trouble. There is a real possibility that home construction, and the production of the various items that go into homes, will slow down; that corporations with excess capacity will cut their spending; and that many important foreign markets will be lost. These things may happen in the very near future. The depression feared in 1945, but postponed by the very unusual conditions that existed after World War II, may arrive in the 60's.

In the heady atmosphere of the post-war boom the poverty that existed throughout these years went unrecognized. Recently certain developments, characterized under the heading of an inadequate rate of growth, have served to focus attention on the problem of poverty. All of a sudden we have found that roughly 20 million Americans (one out of nine) have lived and continue to live in dire poverty—at or below a subsistence level of $2500 for a family of four persons. If one feels that $4000 a year for such a family is a better bench mark of poverty the number below this line exceeds 40 million. Recent studies by Harrington, Lampman, Kolko, and Keyserling all document these grim facts.

The most marked victims of economic stagnation are the Negroes. Negro family income is about half of the white family income today—as it was in 1945. A small minority of the non-white population has moved into the middle class, but the vast majority has lost ground, and are relatively poorer today. Since 1960, 100,000 jobs for Negroes have been lost from the private sector. In the period 1956 to 1962 there has been virtually no expansion of Negro employment in private industry. The meaning is clear: the black worker is hit first when the economy slows down. Recently, reports have shown unemployment among young Negro high school graduates in some Northern cities running as high as 50 per cent.

In addition to the problem of possible stagnation in the strong post-war markets and continuous poverty of these who did not participate in the affluent fifties, a new and most serious problem is arising—automation. Little attention was paid to this problem in the early post-war years for two reasons. First, the development is new. It began with the unlimited spending for science and technology during the second world war and spread slowly from the laboratory to the factory. Only in recent years has its impact been substantial. A second factor relates to the discussion of the post war upsurge. So long as the economy was growing rapidly the unemployment created by automation was in part compensated for. Now, as the growth slows down its impact is more clearly visible.

A final factor which tended to blur the impact of automation was the population pattern. The additions to the labor force during the 1950's were largely born in the 1930's when the

to note that having adjusted themselves to this development, housing experts now speak in glowing terms about the future. In two or three years, postwar babies will have reached the age where family formation usually takes place. As these families are formed, the need for houses will increase and construction will be off and running again. Note that a critical but unstated assumption in this rosy forecast is that the young people who are expected to form families will find employment and earn income sufficient to make them effective consumers of housing.

FURTHER COMMENTS ON THE ECONOMY

What follows is an effort to respond to certain basic questions that have been asked about the original paper. A full discussion of these points is not possible within the confines of this paper, but hopefully some confusions can be dispelled.

A) A number of questions have been asked about timing. Why has prosperity continued, despite the dire prediction of the analysis? How long can prosperity last? Can new stopgap measures be introduced to stay the hand of the executioner?

In an economy as large and complex as ours, where consumers' and businessmen's expectations are of considerable importance, and where these expectations are not simply a mechanical function of economic indeses, making judgments about when particular events will happen is hazardous if not impossible. An additional complication is introduced when one recognizes that the public sector of the economy (whatever its weaknesses and limitations) is quite large and capable of a certain degree of manipulation. This is not to say that we live in an indeterminant world. The trend discussed in the economy paper are real and if they continue unchecked, will lead the economy to disaster. Exactly when this will happen cannot be determined. To make such a judgment involves determining, for example, when automation layoffs in the auto industry and the burden of debt held by auto workers reach a point where large numbers of auto workers decide to reduce their debt and curtail their spending. Will this happen when layoffs reach the stage of affecting three year seniority men? 4 year seniority men, or workers with seven years? How will the auto worker balance this consideration with his debt status? Is $2000 indebtedness his limit?, or is $3000 or $5000 more accurate?

Not too many years ago, many economists felt that consumers would not increase their indebtedness beyond the point where 10 per cent of their disposable income was being used to repay this debt. In 1964, consumers were paying 14 per cent spending by those receiving the tax cut raises employment enough to provide additional jobs for the poor. The aspect of the tax cut which appears to have been quite successful concerns investment by business. Thus far, plan and equipment spending in 1964 has shown a substantial increase over the high levels of 1963. Summarizing the short term impact of the cut, it appears that the employment picture has been somewhat improved by the increased consumption and investment. It has also undoubtedly helped to extend current business expansion. Before looking at the possible long term effects of the tax change, a word on the poverty war.

Assuming the legislation is passed and implemented, about a billion dollars will be spent. These funds will largely be spent to (a) provide part-time employment for students permitting them to complete their education (b) set up combination training and CCC type operations and (c) to help communities that develop anti-poverty programs. Except for a small amount of permanent employment, the major effect of these programs will be to hold down the number of young people entering the labor market for a period of a year or two. In the short run, just as in the case of the tax cut, the effect will be to moderate the critical employment trends outlined in the crisis economy paper. Turning to the long run, the poverty program will have little beneficial effect unless one assumes that jobs automatically appear when young workers gain a bit more education. Proof of such a connection is lacking. In the case of the tax cut, the long run effects of stimulating investment (largely in automated equipment) may be detrimental unless plans are made to employ or provide income for those affected by the further introduction of labor saving technology. In the absence of such planning, there is little reason to expect that the long run trends discussed in the paper have been affected. Labor force growth continues, despite the fact that entrance into the labor market for some young workers will be set back a year or two. The job erosion effect of automation also continues and may, in fact, be accelerated by the recent tax changes. Thus it appears that the original conclusions regarding awareness and action require little or no modification. Actions have been taken, but their effect at best will only be to delay the forces propelling the economy toward crisis.

Before leaving current happenings, a short comment on a recent development in the construction field seems in order. In the original paper, it was noted that in the recessions of 1958 and 1960, economists expressed fear that the rising trend of construction activity might come to an end. As a result of building too many high income apartment houses in recent years, experts now expect that the upward movement is over for at least a few years.

The multiple impact of the slowdown in the construction sector of the economy will unfold in coming months. It is interesting

birth rate was exceptionally low. Thus the need to create new jobs was at a minimum during that decade.

Yet despite these factors which tended to moderate its effects, the impact of automation as an infant in the 50's was not insignificant. Manufacturing industries increased their output of goods over 60 per cent between 1950 and 1960, according to the Federal Reserve Board's index of industrial production. In these same 10 years the number of production workers in manufacturing has remained almost unchanged. This is truly a remarkable event and one with serious economic consequences.
It is not unusual to hear of a new dramatic automated device but there is a tendency to think of these things as exceptional events. Few appreciate the wide impact of the new production techniques. An industry such as apparel is thought to be unaffected by automation, yet, when the figures are examined, one finds production up over 60 per cent in the 1950's, with no additional workers. Here it has not been the introduction of a giant new machine but a series of small changes in plant layout and equipment. The same story is true in industry—food, clothing, furniture, etc.,—the list is endless. Only a handful of industries have shown employment gains: largely the defense groups, aircraft and missiles, shipbuilding, and electronics where huge sums of defense money has been spent. These industries, however, provide only a small fraction of total employment and cannot offset the loss on peacetime employment.

During the decade of the fifties with no gain in manufacturing the population grew by 30 million and the labor force by approximately 7 million. Where did these new workers go? First, only 6 million jobs were created, so that one million did not find work. This is reflected in the gradual increase in unemployment that took place during the past 10 years. The six million who found jobs did so in the service industries (2 million), retail trades (1 million), and government (2-1/2 million). Due to the tremendous change in technology the employment picture has been sharply altered. Not enough jobs were supplied and the jobs that did develop were not in manufacturing but were all in non-manufacturing. This last point is extremely important since wage levels in these two branches of industry are quite different. Weekly earnings in manufacturing run close to a hundred dollars while in many serivce and retail occupations earnings are often only half this amount.

WHAT OF THE FUTURE?

A substantial weakening of the strong post-war markets is a real possibility. One factor not mentioned which has a direct bearing on the strength of consumer markets is availability of funds. We noted earlier that in 1945 consumers had over 100 billion dollars of spending power. Also they were largely debt free. Today consumer debt stands at 60 billion dollars —mortgage debt runs in the hundreds of billions of dollars. To insure that markets remain strong and the debt does not become unbearable, full employment is an absolute necessity. This is not our present condition and future prospects are grim.

In the 1960's the babies born in the forties enter the labor force. The birth rate of the forties was much higher than that of the thirties. The labor force will expand by a million and a half each year in the coming decade. Add to this demand for jobs the number of jobs destroyed each year by automation (estimates range from one to one-and-a-half million), and the problem takes on monumental proportions. In coming years we can only expect an <u>increase</u> in the rate of job destruction.

These are the hard facts: one and a half million workers are added each year, one and a quarter million jobs are eliminated. The net result is a need for over 2 million new jobs a year, and this is a conservative estimate. The assumption that young people will stay in school longer and that older workers will retire earlier depends on a healthy economy.

The rate of automation does not stay steady, but increases with each passing year. The need for new jobs may not be 2, but 2-1/2 million in coming years. The service and trade (non-manufacturing) sector of the economy will be unable to absorb all the new workers of the sixties. Automation is rapidly moving into this sector, already weakening its job-generating potential.

Assuming that one-million jobs are created each year from 1963 to 1970, twice the average number created in the last 5 years, there will be 76 million employed in 1970 (an optimistic forecast in light of our earlier analysis). The Labor Department estimates a work force of 87 million for 1970. The result is 11 million unemployed. This does not take into account involuntary part-time employment or disguised unemployment.

Without going into any detail, the defense economy which provided an important increment of employment in the post-war period is now also having different effects. First, it is absorbing funds which could be devoted to activities which produced real value and employment; and second, it is an area which is becoming increasingly automated.

In the face of these difficulties our response to date is all but non-existent. Where tens of billions are needed for social or public capital expenditures, tens of millions are spent. Where millions of jobs are needed, thousands are provided. None of the present or proposed programs amounts to more than economic tokenism.

POSTSCRIPT

More than a year has passed since this paper on the state of our national economy was prepared. During this period, a number of events have taken place that require attention. This postscript will attempt to integrate these developments into the original analysis. It also provides an opportunity to make some general observations on the original paper and to touch on a few questions concerning its content.

GENERAL OBSERVATIONS

Re-reading the original statement I believe that, although it has many rough edges and clearly lacks certain sophistication and detail, the major conclusions are correct. Postwar prosperity has continued for an additional year but it continues to be a product of rather unique forces. Furthermore the proposition that some of these special conditions may be coming to an end is being partially substantiated by current developments in the area of residential construction (more on this later). So far as the existence of domestic poverty (3rd conclusion), this is quite sound. This has in fact become such an accepted and respectable conclusion that the academies may soon set up poverty sections within their departments of Economics. In the areas of automation—labor force growth—the defense economy—the earlier comments also appear accurate. With respect to last year's brash conclusions that few saw the coming crisis and no action was being taken, a second look is necessary.

This brings us to the events of the past year, a major tax cut and a modest war on poverty. In the case of both these measures, long and short term effects should be examined. In a relatively short time period, the tax cut by increasing disposable income, was expected to increase consumption. Given stronger demand plus the tax funds returned to business, the investment sector of the economy could also expect stimulation.

The happy combination of greater consumption and increased investment would have a desirable effect on employment, leading to a second round of higher income and further growth in the economy. To date, it is not possible to fully evaluate the effects of the tax cut. However, some evidence as to its impact is available. Consumption has not been stimulated as much as expected. An important factor may be that the bulk of the cut went to the middle and upper middle income consumers whose need to spend may be less than urgent. It is worth noting that since families with incomes under 3 or 4 thousand dollars a year, by and large, do not pay taxes, a tax cut approach cannot be of direct assistance to them. If such families are to benefit, it will come about if the increased