

POST WAR TRENDS AND SHORT-RUN PROSPECTS  
OF THE U.S. ECONOMY

by Herman Porter

Contrary to the expectations of our party and most bourgeois economists, the U.S. did not experience a profound economic crisis following World War II. It has instead gone through an extended period of expansion characterized by periods of moderate growth alternating with short and shallow phases of recession.

World War I enormously disrupted the world capitalist system and the policies pursued by the various capitalist nations after that war aggravated the situation. The Versailles Treaty cut up the European states into tiny and economically unviable units. Tariff barriers were increased. Reparations and repayments of war loans resulted in a drain of capital from war-destroyed Europe. World trade, depressed and disrupted by the war, recovered only slowly.

The U.S. boom was the mainstay of world capitalism during the 1920's. But it had to contend against unfavorable conditions in other parts of the capitalist world. And when the U.S. boom collapsed in 1929, it led to the great depression from which the system had not recovered when World War II broke out.

Having learned from these disastrous experiences, the capitalist rulers of this country pursued a different course after their victory in World War II. After Western Europe was politically restabilized thanks to the betrayals of the Stalinists, they provided the capital required for the rapid rebuilding of Europe, principally through the Marshall Plan. European and U.S. tariff walls were lowered. Economic integration and the development of world trade were encouraged. The European Common Market was formed.

The postwar policy of fostering "free trade" and "free investment" has been in the direct interest of U.S. capitalists since they emerged from World War II as the predominant section of world capitalism. Britain pursued a similar policy until World War I while it was the predominant power. During the inter-war period, though the U.S. was the strongest nation, no country was powerful enough to force "free trade" on the others, nor did the U.S. capitalists understand the importance of the growth of world trade to their own economy.

Even though the elimination of capitalist property relations in Eastern Europe followed by the Chinese revolution closed a large part of the world's population to capitalist exploitation, the rebuilding of Western Europe and Japan on a higher technological level provided opportunities for investment and expanded capitalist production and trade. International trade has grown steadily since World War II. The self-sustaining booms which developed in Europe and Japan reinforced and prolonged the stabilization of world capitalism.

Thus in the two postwar periods the American economy operated in radically different international settings. After World War I it was up against an environment of continuing crisis while after World War II it could swim along with a tide of capitalist expansion and the growth of world trade.

The capitalist rulers also applied very different policies at home. The depression of the thirties had driven home the lesson that the old laissez faire ideas and attitudes could not cope with the problems presented by a monopolistic capitalism. The leading capitalist circles no longer depend upon the automatic functioning of "free enterprise." They look to and call upon their government to step in and act as a regulator and stabilizer of the economic system to keep it operating at high levels of profitability and production.

The government has been endowed with greater powers of intervention by substantial changes in the economy. Federal spending, which now amounts to more than one-sixth of total spending, enables Washington to generate large surpluses or deficits. The expanded use of credit, especially in the consumer field, permits the government to influence the economy considerably by restricting or easing the availability of loans. The government has made a more flexible use of taxation to stimulate investment and regulate demand.

The intensified global struggle between the forces of capitalism and socialism has rendered America's rulers extremely sensitive to the consequences of wide fluctuations in the business cycle and been a potent factor in shaping their economic policies at home and abroad. The existence, spread and rapid economic growth of the workers states, the fear of further revolutions like those in China and Cuba, and their possible extension to more industrialized countries have compelled the capitalist representatives to take into account the fundamental and long-term interests of world capitalism as well as their own narrow national interests in the measures they adopt. Thus they have not hesitated to prop up the pound to halt a run on that

currency that would gravely undermine England's economic position.

### Forces Stimulating the Postwar Expansion

The basic reason for the sustained general expansion in the postwar period has been the development of opportunities for investment which in one way or another were able to absorb the profits that are continually generated by the exploitation of labor. Recessions or depressions result when profits are accumulated and forced to lie idle. So long as adequate areas of investment are available, recessions occur due to certain disproportions that crop up as the economy grows in an unplanned way. But under such circumstances the periods of expansion will be longer than the periods of recession.

The following spheres of investment have kept the boom going for the past twenty years despite the intermittent contractions.

1. Deterioration of plants, machinery, housing and consumer durables from the onset of the 1929 depression through the end of World War II provided a massive outlet for investment in the postwar period.
2. The buildup of the military machine in connection with the Korean War in 1950 opened a timely avenue of investment after the 1949 recession.
3. The development of new industries such as television, computers and office equipment, plastics and other chemicals, has provided sizeable areas of investment throughout the expansion.
4. Research and development has become a large industry in its own right, absorbing much capital in the postwar period. Government spending for this purpose along with federal space and transportation programs offered extensive areas of investment.
5. The introduction of new and more productive technology invented during and after the war led to heavy capital investments in such industries as steel as well as in agriculture.
6. Expansion of foreign investment provided a significant outlet.
7. The growth of debt in many directions: government debt, mortgage debt, and installment debt absorbed huge quantities of profit.
8. The rise of salaries and wages coupled with the growth of population generated an expanding demand for consumer durables and housing.

## The Role of the Labor Force in the Expansion

A shortage of workers can also be instrumental in bringing expansions to an end. Once full employment is reached, new investment tends to increase the demand for labor in a tight market. If an added supply is not forthcoming, wages tend to rise and profits to fall which restricts further capital investment.

America's capitalists have succeeded in maintaining an industrial reserve army of unemployed throughout the postwar period. They have been able to do this because of three distinct processes:

1) There has been an average annual increase in output per man hour in the whole non-governmental economy of 3 percent during the entire postwar period. In important branches of the economy, like agriculture and mining, labor productivity has increased very rapidly while demand for the product has increased slowly. This has forced such workers into other sectors of the economy or into the ranks of the unemployed.

2) Whenever during the course of an expansionary phase of the business cycle unemployment rates dropped to levels near 3 or 4 percent, recessions were precipitated, resulting in a very sharp growth of unemployment.

3) A growing population has continuously added to the total work force. A tendency for higher rates of participation of women in paid employment has also contributed to the growth of the labor force.

## Main Features of the Postwar Period

The most noteworthy features of the past two decades have stemmed from the increasing monopolization of the economy and from the increased intervention of the government in economic life. Government intervention has grown to a large degree in response to the problems that arise from monopoly.

The monopolists have considerably strengthened their stranglehold on the economy. In 1950 the hundred largest manufacturing corporations held 38.6 percent of all manufacturing assets. In 1962 they held 45 percent, a gain of over 6 percent in twelve years. Retail trade which was formerly in small business hands has likewise become heavily monopolized with the predominance of supermarket, department store, discount house and even restaurant chains.

The huge monopolies face the problem of profitable investment for their continually accumulating profits. They maintain high

profit rates in the industries under their control because they are shielded against competition by the enormous sums of capital needed to enter these sectors.

The drive for new areas of investment has impelled the larger corporations into a diversity of unrelated fields, resulting in the emergence of "conglomerate" corporations. The stepup of capital export during the recent years has been in part due to the growing monopolization which tends to restrict investment in broad sectors of the national economy.

Monopoly control has also been a major generator of the continuous rise in the general level of prices. Rapid inflation has resulted whenever output of an industry neared full capacity.

The very rapid growth of mortgage debt and consumer debt in the postwar period has gone hand in hand with low rates of investment in plant and equipment. The growth of the U.S. economy has been slow and small relative to the growth rates of western Europe and Japan, not to speak of the workers states. Compared with Europe and Japan, a relatively small proportion of American investment has gone into new plant and equipment and more into housing. A larger part of the capital surplus has been converted into the loan capital behind the indebtedness of consumers.

Two other features of American capitalism that became so prominent in the late 1950's, much excess capacity and high unemployment, are also ultimately the result of growing monopolization of the economy. The practice of restricting output in order to maintain or raise prices produces unutilized capacity and unemployment. And the restrictive fiscal and monetary policy pursued at times by the government to combat inflation also results in unemployment and excess capacity.

Though total debt in the economy has risen steadily in the postwar period it has not increased significantly in relation to the gross national product. It is now about three times the size of the gross national product and was about that in 1945 and 1929.

But there has been a significant shift in who owes the money. Consumer debt has risen very rapidly in the postwar period. Residential mortgage debt has grown about 10 times to \$210 billion, while installment debt has grown even more rapidly to about \$67 billion (Business Week, Jan. 8, 1966.). A smaller part of the debt is now owed by business.

One way of judging the size of this debt is to see what proportion of after tax income is used in paying the interest

charges and repaying the debt. For the whole population personal debt repayment absorbs about 20% of disposable income. An estimated 14.3% is absorbed by the repayment of installment debt. Although installment debt is small in relation to mortgage debt, it takes a bigger bite out of current income because installment debt must be paid off much more rapidly.

Personal debt has grown slowly but steadily as a percentage of disposable income in the postwar period. No one knows how much it can pile up.

The extremely rapid growth of installment debt makes economic stability more precarious. If there were a strong downturn, deep enough to cut disposable income significantly, the high level of personal debt would deepen the recession even further. All of the postwar recessions have been too shallow to have this effect.

The necessity for the capitalists to avert economic crisis has fostered the growing intervention of the federal government in all aspects of the economy. The government has a number of powerful instruments for influencing the economy, especially in the short run. The most notable is the use of deficit spending to stimulate economic activity or conversely, the occasional generation of budgetary surpluses to retard its over-heating. During World War II the U.S. piled up deficits of more than \$50 billion in a single year. Since then annual deficits have usually remained below \$10 billion.

The other most powerful weapon in state regulation of the economy is control of the supply of money and credit and of the level of interest rates through the Federal Reserve System. The capitalist regime can very quickly and directly retard expansion even to the point of recession by restricting the availability of money and credit. Such restrictive measures were invoked against inflation and an adverse balance of payments in the U.S. during the late fifties. While a slowdown can readily be provoked in this fashion, the restimulation of investment once the recession has begun is not so easily solved.

### Two Periods of the Expansion

The postwar expansion can be divided into two phases. The first, which came to an end in 1957, was characterized by the fact that the U.S. had overwhelming predominance in the world market and encountered little competition from industry in Europe and Japan. Under these conditions American capitalists could tolerate relatively rapid inflation which proved useful as a means of lowering real wages. The international balance of payments

which was positive in the forties turned negative in 1950. However, the adverse balances were small and constituted no serious difficulty.

The second phase began when European and Japanese industry had largely been rebuilt and became competitive with American industry. From 1955 on American capitalists accelerated their investments in foreign countries and from 1958 on the balance of payments became an increasingly serious problem for the U.S. economy because of the big exports of capital. The new conditions of international competition also made further inflation a serious threat to the interests and stability of American capitalism. Its government has been grappling with these interlinked problems ever since, as an analysis of its economic policies since 1958 demonstrates.

The rate of real domestic investment was higher in the first period than in the second. Total investment absorbed an average of 11% of GNP through 1957 and 9% after (according to the 1965 Economic Report of the President).

Net investment in plant and equipment dropped more dramatically. The rate of private foreign investment has changed in the opposite direction. It has been consistently higher in the second period than in the first.

The higher rate of domestic investment in the first period was due to the rebuilding of plant, equipment and housing worn out during the depression and World War II, and the rebuilding of the military machine during the Korean War.

### Postwar Recessions

In comparing the business cycle after World War II with similar developments after World War I, one feature stands out. Though recessions have been about equally frequent -- there were five downturns in each period -- the recent slumps have been shorter and shallower than the post-World War I contractions. In the recent downturns industrial production dropped less than half as much on the average as in the prewar period.

The economic fluctuations of the past two decades have been influenced to a large extent by government policy. A brief review of the five downturns will show what the effects of government intervention have been and how federal fiscal and monetary measures have been applied to promote and protect capitalist production.

The first downturn, which began in February 1945 before World War II had ended and Japan was defeated, was the most severe. Although it was brief, lasting only to October of that year, the index of industrial production dropped by 31 percent in those months.

According to government figures, unemployment rose from 1.1 percent to 3.3 percent.

This recession was unlike its successors since it arose from the conversion of a wartime economy to peacetime production. The disproportions among different branches of industry which develop for a variety of reasons is a prime cause of recessions. These are brought about by the unplanned nature of capitalist production as well as by sharp shifts in demand. In this case the abrupt transition from military to civilian demand created the disproportions responsible for the recession.

The later recessions have had a very different character.

The next three cycles exhibited a typical pattern. During the initial part of the upswing the government followed expansionary policies. It ran budgetary deficits and provided ample money and cheap credit. As prices rose rapidly with the increased utilization of capacity, the government switched its policies and instituted deflationary measures. It incurred budgetary surpluses and restricted the availability of money and credit and raised interest rates.

During the early phases of the upswing costs of manufacturing decreased as output rose and plants were operated at more efficient levels. Prices rose more rapidly than wages and profits soared. But as output neared capacity, costs of production increased. As capacity utilization rises old plant is put into operation; output in many plants is pushed beyond the most efficient operating levels; maintenance is neglected to keep production lines running; new workers hired are less experienced and therefore less skilled than those previously employed. Wages tend to rise more quickly with decreasing unemployment.

In all three recessions, as a result of these tendencies, profits peaked out and then declined. The government's restrictive policies slowed down the growth of demand. Corporations cut back new capital appropriations as the prospects for profitable investment decreased.

Then, when the recession ensued, the government changed its restrictive economic policies to expansionary ones.

The most recent recession lasted from May 1960 to February 1961. It was not only the mildest but had a different genesis than the previous three. This one was precipitated by the imposition of a tight-money policy before the recovery from the 1957-1958 recession had gone very far. The rate of unemployment was still quite high, over 5 percent when the recession began. Full capacity had not been approached and prices were not going up



fast as they had been in the earlier expansions when the government changed over to a tight-money policy.

Why did the government intervene in this manner? It sacrificed domestic expansion in order to protect the international position of the dollar. A tight-money policy was forced upon the administration by the large balance of payments deficit from 1958 on. Although the federal curb on credit halted the upswing that might otherwise have been prolonged, it did not succeed in eliminating the balance of payments problem which continues to plague successive administrations.

### The Balance of Payments Problem

The most persistent problem of the postwar economy has been the negative balance of payments. Though the U.S. has had a trade surplus (exports exceed imports) throughout the period, its foreign military and economic aid and especially its exports of capital have more than counterbalanced the trade surplus. From 1958 on the payments deficit has averaged more than three billion dollars annually. This chronic problem becomes more acute each year.

The deficit has been paid for by an outflow of gold and dollars. The supply of gold to back the dollar has dwindled from more than \$24 in 1949 to less than \$14 now, the lowest point since 1938. This loss of gold cannot be allowed to continue indefinitely for too small a stock would put into question the ability of the United States to redeem dollars with gold. Dollars are now used freely in place of gold in international trade because of the government's guarantee to pay gold on demand to foreign governments holding dollars.

Most of the balance of payments deficit, however, is paid for not by gold but by dollars. Since dollars are accepted without question in world trade, foreign governments have been willing to hold large supplies in reserve to settle international transactions. As world trade has grown, the need for greater reserves has developed and until recently foreign governments have been willing to tolerate this steady outflow of dollars.

This outflow of dollars has been used by American capitalists to buy up sectors of European industry and to make direct investments in Europe as well as the underdeveloped countries. This influx of dollars has added to inflationary pressures in European countries where there was full employment and industry has been operating at close to capacity. Foreign capitalists have been apprehensive about this intrusion of U.S. capital control into their economies.

Since there are many more dollars in foreign hands than the gold in Fort Knox, foreign governments can exert pressure on the U.S. to cut down its balance of payments deficit by turning in their dollars for gold. This is what France has been doing.

The persistent balance of payments problem makes inflation a more serious threat to the stability of the American economy than it would otherwise be. For when U.S. prices rise more quickly than those of its competitors, exports tend to diminish and imports increase aggravating the balance of payments problem. During the 60s, however, European and Japanese prices have risen faster than those in the U.S.

As the economy moves toward full employment of its productive capacity the monopoly-dominated economy produces a strong and constant tendency toward inflation. This in turn puts pressure on the government to institute deflationary policies to preserve the value of the dollar. But these can lead to recession, as happened in 1960.

### The Situation of the Workers

The profitability of the capitalist system tends to be inversely related to the organized strength and consciousness of the working class. To the extent that workers win wage increases, restrict speedup and automation, and make the employers maintain low unemployment rates they put the capitalists in a bind. Faced with rising costs, they must either suffer a cut in profits or resort to inflation to reduce real wages.

The Kennedy administration in the 1962 Economic Report of the President adopted official "wage-price guidelines" which publicly committed the government to a policy of tying wage increases to labor productivity increases. In practice this means holding wages down in order to keep profit margins up. At the same time high unemployment has acted like a heavy weight on the wages of the unorganized.

On top of all this, the attitudes of the conservative union leaders have strengthened the hand of the capitalists and led most of the unions to settle for modest wage gains. This relation of forces has had a twofold result. Since 1958 wages have increased more slowly than labor productivity while profits have soared without inflation. It has been bonanza times for the profiteers.

Despite the defaults of their leadership, the expansion of the last two years has objectively altered the situation of the industrial workers. Employment of production workers in manufacturing has increased rapidly. The Korean War saw the peak number

of production workers in manufacturing: 14.3 million in 1953. The number of factory workers declined at the height of each succeeding upswing: to 13.5 million in 1957 and 13 million in 1960. This trend has been reversed during the current expansion. The 1960 peak was passed in 1964. The 1957 peak was nearly reached in 1965 with an average of 13.4 million production workers employed.

Since 1953 a pool of unemployed experienced factory workers was always available during expansion. This pool has now been largely drained through increased employment, retirements and job changes. Places in basic industry for young people are opening up now for the first time in over a decade. Objective conditions are now quite favorable for organized workers in industry to push for wage increases, although few major negotiations will come up before 1967.

The possibilities of organizing some sections of the unorganized workers is also improving as a result of decreasing unemployment and the struggle of the Negro people for Freedom Now.

Those who are most discriminated against in this society, Negroes and other minorities, make up a disproportionately large section of the unemployed. For more than a decade Negroes have been hit by unemployment rates more than twice as high as white workers. The situation in some ghettos and among the young is much worse. There are despite big promises, no evidences of any appreciable change in this discrimination. This absence of improvement in the plight of the Negro is a most powerful and persistent generator of the Freedom Now struggle and the periodic outbursts in the black ghettos of the big cities. The persistence of much higher unemployment rates among black people, despite the recent improvement in the general employment situation and the lip service paid to ending discrimination, is an indication of how deep-rooted racism is in the U.S.

#### Effect of Automation to Date

There has been wide discussion of and concern about the affects of automation on employment. (The term "automation" is used here in the broadest sense of any technological change that increases output per man hour .) Some have gone so far as to suggest that we are about to enter a period of mass unemployment because automation has made human labor obsolescent. While great hardships are forced on workers, especially older workers, by technological change, employment has risen rather than decreased during the past 25 years. Employment has risen especially rapidly in the last two years, when, presumably, the introduction of

automation has been greatest. A comparison of some statistics presented below may serve to put the effects of automation on the economy in perspective.

From 1919 to 1929, the time of post-World War I expansion, labor productivity for the total private economy in the United States rose at an annual rate of 2.9 percent. The average annual rate in the post-World War II period has been 3 percent. The rate of increase of productivity for production workers in manufacturing was 5.3 percent in the post-World War I period and only 3.6 percent in the post-World War II period.

Comparable figures for the rise of labor productivity in manufacturing from 1949 to 1959 are available for both U.S. and Europe. Annual rates of increase averaged: 3.2 percent in the U.S., 5.7 percent in Germany, 7.2 percent in Italy and 2.4 percent in the United Kingdom. These comparative figures do not indicate any qualitative change in the rise of labor productivity in the U.S., in the past period owing to automation.

This does not mean that technical change, loosely termed automation, has not been utilized as a weapon by the capitalists against the workers during the post-World War II period. While automation is usually pictured as a threat mainly to unskilled workers, it is often directed against skilled and strongly organized workers -- making their skills obsolete and reducing the numbers of some of the strongest unions. Thus labor-saving innovations have been widely introduced in mining, transportation and manufacturing where wage rates are highest. This has resulted in a shift of employment from higher-paying jobs to services and other areas of low pay.

Increased labor productivity through automation or any other process has contradictory results. It makes labor "redundant" but it also cheapens commodities. In some cases the cheapening of the commodity will increase the demand to such a degree that more labor will be employed in the industry. In others, employment will decrease.

But if the economy is expanding the unemployed will tend to be absorbed in other industries, especially labor intensive industries which will then in turn be capitalized or "automated."

A general rise in labor productivity will facilitate a rise in real wages. This is what happened in Europe and the U.S. in the post-war period. This in turn resulted in an increased demand for consumer durables and housing that provided the basis for the

growth of these industries and was an important force in maintaining the expansion.

Thus though rapid rise in productivity may temporarily result in increased general unemployment during periods of expansion it produces counteracting tendencies against a long run trend of increasing unemployment. If the general postwar expansion ends and a period of depression like that of the 30's ensues, then automation could indeed result in evergrowing unemployment. But this is not the prospect for the next period.

### Interrelations Between the U.S. and World Economy

Because of its great size and diversity the U.S. economy is less vulnerable to the impact of external developments than other capitalist countries. But it is nonetheless greatly affected by whether the rest of world capitalism is growing and providing expanding markets. Throughout the fifties the main impetus to world trade and economic growth in the capitalist world came from the West European and Japanese booms. Expanding foreign trade served to bolster U.S. expansion and mitigate its slumps.

Recently this situation has begun to reverse itself. The European and Japanese expansions have slowed down while the U.S. expansion that began in 1961 has continued and accelerated. World trade is presently being buoyed up primarily by the American boom.

The third big sector of the capitalist world market composed of the colonial and semi-colonial economies is completely dependent upon the imperialist countries. Their domestic development depends upon imports of machinery and finished products from the industrialized economies. These, in turn, depend on the foreign exchange that can be earned by selling their raw materials in the markets provided by the metropolitan centers. Thus their growth is conditioned by the growth of the market in the industrialized countries.

Given the slackening in Europe and Japan and the dependency of the non-industrialized countries, a U.S. recession now would most likely lead to a contraction of world trade that would set off a world-wide recession.

However, the current U.S. expansion will very likely continue through 1966 at the least. If the next U.S. recession should coincide with continued slow growth of the European and Japanese economies a world-wide downturn is likely to occur.

## The Current Expansion

The ongoing upswing that started early in 1961 has displayed different tendencies than its predecessors.

1. It is already by far the longest, enduring 59 months.
2. In the earlier expansions profits and profit rates reached a peak by the midpoint of the period and then turned down. No comparable sag has yet occurred in this one.
3. There has been less inflation than in any other period of expansion. Wholesale prices remained stable through 1964 and only began climbing in 1965 with the higher utilization rates. The overall wholesale price index with a base of 100 for average prices in 1957 through 1959 was only 100.5 in 1964. The index had risen to 103 in December 1965. This represented only the beginning of inflation.

Through 1964, the cost of living index went up about 1.2 percent a year. The cost of services rose especially fast and rent rose more rapidly than the cost of manufactured goods which was restrained by foreign competition and excess capacity. In 1965 the cost of living rose about 2 percent. Now that the wholesale prices of manufactured goods have begun to climb, there should be a more rapid rise in consumer prices.

4. Wages have gone up slowly, more slowly than labor productivity.

5. The rate of unemployment has remained high throughout this expansion. It decreased very slowly to an average of 5.2 percent in 1964 and has not yet gone down to 4 percent.

One of the most important factors in sustaining the duration of the current expansion has been the large industrial reserve army that was built up in the late fifties. High unemployment coupled with government intervention in wage negotiations have held wages down and facilitated the maintenance of extremely high profits without inflation of wholesale prices.

Large reserves of unutilized capacity were also built up in the late 50's. This excess capacity plus foreign competition counteracted the persistent inflationary tendency that had prevailed since the start of World War II. The government was able to pursue expansionary policies without a resulting inflation. It used tax incentives to stimulate investment which in turn enlarged

capacity. Utilization rates climbed slowly during the course of the expansion and did not pass 90 percent until 1965.

To prolong the expansion the government has not only resorted to the standard Keynesian techniques of deficit spending and credit expansion which affect the economy generally but has also attempted to directly control specific aspects of economic activity. It has stimulated investment through faster depreciation allowances and tax writeoffs in order to make U.S. products more competitive on the world market. It has sought to curb the outflow of capital which aggravates the balance of payments problem by taxes on the purchase of foreign securities, by limitations on bank lending to foreigners, by so-called "voluntary" controls on direct investments by U.S. corporations in other countries. It has intervened in wage disputes more vigorously than ever to keep wage levels down. It has tried to head off inflation by applying direct pressures on selected key industries to retard price increases.

However, many of these methods of direct intervention in the economy are only temporarily effective and tend to peter out as full employment and full utilization of capacity are neared. The government has considerable capacities for stimulating the economy while there is much slack in it without causing inflation but once the economy is operating at full capacity, expansion can be maintained only at the price of rapid inflation and a large deficit balance of payments.

Most of the important indicators point toward a continuation of economic expansion at this stage. Labor costs per unit of output remain roughly constant while profits continue to rise. In the past profits have always declined before the onset of recession. But even so late in this expansion profits are ascending. Similarly, new outlays for capital investment have always come down before recessions began. In this case they are still rising. In addition, the corporations can look forward to no marked acceleration of wage increases in 1966 because no major trend-setting contracts will be up for negotiation.

The deepest of the last three recessions was in 1957. This came about when investments expanded capacity rapidly while the government instituted deflationary policies to combat the steep inflation of 1955 and 1956. By the time new plants came into operation in 1957, demand had diminished and the outlook for the newly installed capacity was poor. Investments were heavily cut back with a deep depression as a result.

This is not a probable line of development in 1966, despite the extremely heavy investments of the past two years. Apart from other circumstances, the Vietnam war expenditures insure an expansion of demand.

Another important factor favoring continuation of the expansion is the large number of young people entering the labor force. In 1965, as a consequence of the postwar baby boom, the number of young people turning 18 sharply increased. From 1965 to 1980 the estimated average net increase in the labor force each year will be about one and half million compared with an average annual growth of about 900,000 over the past decade.

The next stage of U.S. economic evolution will be considerably affected by the course of the war in southeast Asia. Despite Johnson's optimism in his State of the Union message, large increases in military spending will most likely result in large government deficits.

These will also spur the investment boom. The number of jobs created will exceed the number of people entering the labor force and unemployment will continue to drop. For the first time since 1953 there are good chances that the unemployment rate will be persistently under 4 percent in 1966, if the Vietnam war builds up.

As utilization of capacity increases and costs of production rise, inflationary pressures will grow stronger. Increased foreign spending related to the Vietnam war and stepped up imports as demand grows faster than production will aggravate the balance of payments problem.

The government has a number of instruments with which it can try to cope with these problems. Very likely, it will at first try to dampen inflation by restricting the expansion of money and credit through the Federal Reserve System. But it will be forced to raise taxes if the war continues on an expanded scale. In all likelihood it will intervene more harshly than at any other time in the postwar period against wage increases.

Nothing short of government control of foreign investments and loans is likely to be able to control the payments deficit. The war will tend to diminish the positive trade balance (more exports than imports) that the U.S. capitalists now enjoy, and so foreign investments will have to be sharply curtailed. This in turn will add somewhat to the inflation at home.



A large-scale, prolonged war would weaken the U.S. economy by expending resources that could otherwise be used in productive investment and consumption. It would lead to higher taxes and inflation, which would in turn provoke distress and militancy within the working class.

On the other hand, it would enlarge the markets in the U.S. for the primary products of the colonial and semi-colonial countries and for the expansion of exports from Europe and Japan. These other sectors of world capitalism would benefit at the expense of the American economy, as the U.S. economy benefited from World War I at the expense of Europe.

The immediate prospect at home is for a continuation of the expansion. Just when and how the next recession will strike, and what its depth and duration will be, cannot be foreseen at present because of the uncertainties connected with the course of the southeast Asian conflict, and because the short-run course of events will be so largely influenced by the economic policies of the government.

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