

A Distinguished Economist Looks at the Lessons of the 1958 Depression . . .

The business cycle has been an especial concern of the distinguished economist, Dr. Otto Nathan, first under the Weimar Republic in Germany, then as special economic adviser here in 1930-31 to President Hoover's Emergency Committee of Employment, and later as a lecturer on economics at Princeton, Columbia, Vassar, Howard and New York University. He was chief economic analyst for the Treasury in 1944-45. This background gives particular interest to his views on our current economic situation, written by request for the Weekly.

BY DR. OTTO NATHAN

The apologists of American capitalism rejoice in the contention that the recent depression had come to an end earlier than many expected and that capitalism had once more demonstrated its inherent recuperative powers. A look at the many tables and charts which the statistical mills are ceaselessly grinding out does indeed indicate that, taking the economy as a whole and forgetting about conditions in individual industries and businesses, the contraction halted sometime early last Spring and that expansionist forces have since operated. In the six months that elapsed, steel production rose by over 30% (still about 1/3 below its previous peak), orders, production and sales of machinery and durable consumer goods have been increasing considerably, personal incomes and consumption reached new highs, industrial profits have been rising, the stock market has been extremely active at fast increasing prices, and total national income regained about half of its loss during the depression. On the surface, these changes seem impressive. What remains conveniently hidden, are the many unevennesses as well as the many serious uncertainties and defects in the economy, most important of which is the almost unchanged large number of around 7 million unemployed (including the millions of only partly employed workers). It is, therefore, a euphemism to say that the depression is "over."

To both apologists and critics of capitalism the depression should provide food for thought. The apologists should realize that capitalism, in essence, has not changed; the critics, that many changes in capitalist institutions have taken place which make dogmatic reasoning and over-simplification more misleading than ever.

A Myth Exploded

The 1958 depression has made it clear that capitalism is as unstable, insecure, and unpredictable as ever. The myth, so ingeniously and laboriously built up, of a depression-proof American economy has been exploded. For years the apologists have claimed that the government and the business world had at last accomplished the miracle of never-ceasing "balanced growth." That was meant to imply the possibility of continuous expansion of productive capacity without the disequilibria and imbalances that have characterized economic development ever since capitalism came of age. The critics, on the other hand, have held that the massive government expenditure for military purposes provided a temporary cushion against depressions. Now, it has been demonstrated that both views are mistaken. Capitalist instability is still a stark reality: the built-in stabilizers, such as social insurance and the automatically depression-responsive income-tax-collection-system, or continued heavy public spending for armaments are incapable of preventing imbalances and wide fluctuations; capitalism is not able to enjoy expansion with relative stability without a broad measure of centralized, over-all planning.

It must have come as a shock and a lesson to the apologists that, despite all the wonders which the American economy had allegedly accomplished since the end of the war, precipitate declines could still occur. Within a few months, production in the steel industry shrank by almost 50% and unemployment rose from 2 to 5 million men totally out of work and millions only employed part-time. The depression affected almost all parts of the economy. It made it obvious, although daily experiences at all times—depressions or booms—should have taught the lesson long since, that "security" cannot exist for anybody under capitalism. All decisions about purchases, sales, inventories, investments, prices, etc., have to be made without real knowledge of what the future may be. False investments, overcapacity, disequilibria, painful losses, failures, unemployment and personal misery are

Award for Insipidity

In a short pause for station identification, we would like to make our annual award for sheer insipidity to CBS, Walter Cronkite, and Prudential Insurance Company (the sponsor) of "Twentieth Century's" two part Sunday night show called "The Red Sell." The low point of this supposed expose of Communist propaganda was a bit by Daniel Schorr, who knows better, suggesting that Sputnik was a "gimmick" designed deliberately it seems to undermine faith in capitalism. One inane East German propaganda film about U. S. soldiers misbehaving in a night club was used over and over again, though we have made films as silly and distorted on our side. This "Twentieth Century" show was just about as wooden as the most wooden of Communist efforts, and would immensely improve morale in Moscow if shown there since it would demonstrate that tasteless propaganda is not a Soviet monopoly. Prudential Insurance Company must be run by executives of little taste and less intelligence if they buy tripe of this kind with their policy-holders' money.

hence unavoidable. The depression even accentuated the feeling of insecurity because of the inevitable diversity of predictions about its course, its potential depth and its possible duration. Whom should businessmen believe? What should they accept as the basis of their decisions?

It is chiefly to offset or circumvent this basic insecurity, as it affects groups or individuals, that capitalism has been changing for many years, and particularly since the 1929 depression. Whether it is the concentration of economic power, which makes planning within industries and better protection of profits possible, whether it is trade-unionism which tends to improve working and living conditions of workers in various ways, whether it is bank deposit insurance, social security, price and production policies in agriculture or some other scheme—they all were directed at minimizing the hardships of capitalist instability in segments of the economy, and they all have done so with more or less success. But have those measures also minimized over-all instability? A depression in capitalism is always an indication of maladjustments and disproportionalities that inevitably accumulate during a boom. Sooner or later, at an unpredictable moment, they cause a contraction in the economy which feeds on itself through self-cumulative processes. Is it possible that, because of the many changes in capitalism, those which were mentioned and many others, such maladjustments may develop more slowly or may not attain their former magnitude and that depressions may thus be less severe? Is it possible that those self-cumulative processes will be offset to some extent by a slower decline of consumer purchasing power—thanks to unemployment and old-age insurance, long-term collective labor contracts which prevent or postpone steep declines in wage-rates, the maintenance of farm income and the better regulated dividend policy of corporations? Further, is it possible that the course of depressions has been altered by the absence of the customary initial breakdown in the money and credit markets and by the lack of bank failures due to deposit insurance? Is it possible that governments, whatever their political constellation, will henceforth be compelled to take certain anti-depression measures, as the Eisenhower administration did, however inadequately, during this depression, and that the resulting deficit-financed spending may minimize those self-cumulative processes?

Over-All Instability Reduced

The answer to all these questions is affirmative: no serious and honest student can deny that the institutional changes in capitalism, resulting both from self-evolutionary processes in the system and from measures adopted to correct its most intolerable features may cut the edges of over-all instability and hence preclude a repetition of the 1857 or 1929 debacle. But the inherent instability of capitalism, affecting millions even in times of prosperity, and the unpredictability of its developments have remained with us. The present situation offers a good example. One leading business magazine asserts that, the first phase of the upturn having come to an end, the second phase of expansion is just beginning "which

... Little Decline in Joblessness Though Business Activity Has Revived

will open the vista of an unprecedented boom." On the other hand, gloom is being expressed in many quarters due to the unevenness of the recovery, due to the concern felt for particular industries, such as automobiles, and chiefly due to the very unusual situation in the money and credit markets. Sharply higher interest rates and tightening of the credit supply, as they have lately occurred, are quite uncustomary so early after the end of a depression. Fears are being expressed that this monetary condition may stifle the recovery movement in its infancy, may discourage or prevent the resumption of investment in plant and equipment, so indispensable to economic expansion, and may throttle commercial and particularly residential construction which has so far been an important factor in the recovery.

Forecasting Hazardous

The causes responsible for the monetary developments once more illustrate the irreparable instability and vicissitudes of present-day capitalism. Those courses are: the government's need for relatively large borrowings which are the inevitable consequence of anti-depression measures and which, through pushing up interest rates, may defeat their very purpose; involuntary liquidation of wild speculations in government securities, and, finally, the Federal Reserve Board's urge to protect the economy from the alleged danger of inflation. Capitalists will always discover new ways of making money: a case in point were last spring's huge speculations in—of all things!—government securities, facilitated by ridiculously easy credit opportunities. When some of the speculators were forced to sell, prices tumbled. How stable is a system in which loans made to the government—the "safest" of any security!—lose more than 10% of their value within a few months and interest rates on Treasury Bills increase from 0.6 to almost 3% from June to September? A system, moreover, in which the Treasury's legitimate desire for easy money and low interest rates is undermined by the Central Bank's apparent obsession to fight "inflation" through restricting the credit supply and through favoring higher in-

Copies are still available at the bulk rate of three cents per hundred or more of the full text of the final statement issued by the third Pugwash nuclear conference held in Austria recently. This text has appeared nowhere else in the United States except the Oct. 31 issue of *Science*, organ of the American Association for the Advancement of Science.

terest rates. Let it be said that no "inflationary" situation exists today in the United States; further, if it did exist, the tools with which to fight it would be quite different from those applied in the last few years.

The cloud of tighter and more expensive money which has lately been developing over the economy is the excuse for the reservations which some diagnosticians and analysts feel about economic conditions in the near future. Nobody should blame them for their caution; the innate inconsistencies, disharmonies and complexities of capitalism and our lack of real knowledge make any short-term forecast a hazardous project at any time.

There is one part of the economy, however, where the clouds are really dark: the labor market. Despite the increase in production, unemployment has hardly receded. The increase in the productivity of labor and in the hours of work, both customary at this stage in the business cycle, and the steady influx of additional employable workers, due to the increasing population, have offset the potential absorption of men by the improvement of production. Even if the recovery should make headway in the near future, the outlook for labor remains far from favorable. Once more the American people, and particularly the American working class, may have the painful opportunity to learn that unemployment is the almost chronic malady of capitalism and that, in capitalism, even "prosperity" is only a facade behind which a so-called boom exists side by side with instability, idleness and misery.

Linus Pauling's Warnings About Carbon 14 Vindicated By New AEC Study

In an address in Washington last April 28, Dr. Linus Pauling for the first time called public attention to a new menace in radioactive fallout from bomb tests, that of Carbon 14. (See full account in Dr. Pauling's trenchant book, No More War). He was met with a barrage from the AEC which made him appear to be a sensationalist, unreliable unscientific. Now it appears that the AEC's own Division of Biology and Medicine has discovered that Dr. Pauling was right. Though this is news, it got into no press releases and was given to no reporters. It remained for Dr. Ralph E. Lapp, whose books have done so much to educate the public on nuclear matters, to call attention to Dr. Pauling's vindication in a letter which the New York Times published on Nov. 2. We reprint it here for readers who may have missed it. This is another example of the way the AEC's Dr. Libby and some of his close associates mislead the public, and of how poorly the papers cover news which runs counter to the official AEC pro-testing line. —IFS.

To the Editor of the New York Times:

The New York Times reported on April 29 that Dr. Linus Pauling had called attention to the radioactive menace of bomb-produced radiocarbon 14. Subsequently, Drs. Kulp, Kroecker and Schulert, in a letter published in The Times on May 2, took issue with Dr. Pauling, criticizing him for erroneous statements and admonishing "exaggerated statements by respected scientists only add to the public's confusion and do not contribute to the solution of the problem."

Dr. W. F. Libby, scientist-member of the Atomic Energy Commission, stated on May 3 "Therefore, the extra radiation dose from this product of nuclear tests is equivalent to an increase in altitude of a few inches."

In a letter printed on May 16 Dr. Pauling challenged the views of Drs. Kulp and Libby, stating that the radiocarbon from thirty megatons of fission energy release "will ultimately be responsible for the birth of 230,000 seriously defective children and also for 420,000 embryonic and neo-

natal deaths."

The Division of Biology and Medicine of the Atomic Energy Commission has just issued Document WASH-1008, "The Biological Hazard to Man of Carbon 14 from Nuclear Weapons." Since this writer has in the past been critical of the A. E. C., I am happy to compliment that agency upon a very objective and fair evaluation of the carbon 14 hazard.

The study reviews the variety of estimates made for the carbon 14 problem, examines the different assumptions of various scientists, including those of Dr. O. I. Leipunsky, and concludes that bomb carbon 14 produce to date (prior to latest Soviet tests) may ultimately involve 100,000 cases of gross physical or mental defect, 380,000 cases of stillbirths and childhood deaths and 900,000 cases of embryonic and neonatal deaths.

The A. E. C. report comments on these figures by stressing that "genetic damage estimates are subject to large uncertainties and should be used in this light."

Even though some of Dr. Pauling's assumptions differ from those of the A. E. C. report, it is significant that his estimates for thirty megatons of bombs are roughly half those for the bombs tested up to this summer. Reliable reports put this megatonnage at sixty megatons, so that Dr. Pauling's estimates agree quite closely with the most recent A. E. C. estimates.

Absolute numbers such as those cited for carbon 14 genetic damage are impressive, especially when they apply to the 266 future generations covered by the persistence of carbon 14's long life (average life of 8,000 years). The expected annual rate of carbon 14 casualties is of course very low and is not detectable. Thus one's evaluation of the hazard depends upon one's point of view—this fact accounts for the disagreement of some experts.

When the experts disagree the people may be confused. However, disagreements in science are often essential to progress and understanding.

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