

ECONOMY

If boom is here, can bust be far away?

By David Mermelstein

Figures released in early May provide fresh evidence that the American economy is picking up steam: official unemployment fell 0.3 percent to 7 percent, a 29-month low, while total employment rose; the index of leading indicators (a measure that forecasts future economic activity) soared upwards in March for its largest gain in nearly two years; factory orders rose 5.2 percent, the best increase in six years. Construction spending for March also rose significantly as did new-car sales for April.

No boom worth its salt has ever made it without surging business investment in plant and equipment. Until now, overcapacity, business caution and a need for corporations to put their financial houses in order (i.e., pay past debts before acquiring new ones) had made capital investment a significant soft spot in what otherwise was a relatively normal economic recovery. The tide may be turning in this area; just released is a highly regarded survey by McGraw Hill predicting an 18 percent rise in the growth of domestic capital spending (11 percent, adjusted for inflation).

Clouds remain, however. Wholesale prices are soaring in double digits. (Can consumer prices be far behind?) The stock market continues to stagnate well below its peak. Unemployment, far higher than official figures indicate, remains concentrated and without significant improvement among young persons and minorities. Even the projected capital boom has weaknesses, especially in steel, and to a lesser extent in petroleum, paper and chemicals. The same McGraw Hill survey of investment plans implies stagnation for years beyond the current one.

Still, the immediate picture is for an accelerated tempo of economic activity. It would probably be fair to say that the American economy is in the process of moving beyond "recovery" to conditions of "boom." On the other hand, the expansion phase of the typical business cycle usually lasts less than three years, and so we may be less than a year away from another downturn. Any such downturn would start on a base of unemployment so high we would almost certainly re-experience the Depression phenomenon of double-digit unemployment.

Recession only a question of when.

If the date of the next recession remains in doubt, its eventual appearance is not, as booms always end in busts. The reasons are complex: to some extent each business cycle represents a new stage in capitalist development, expressing new realities with unique features. But all booms share one feature: costs escalate—cost of wages as the labor market tightens, of interest rates as business borrows more to fuel the boom. These pressures push prices higher. Too much money also chases after too few goods, as textbooks describe demand inflation.

Inflation in turn causes wage demands to soar as workers struggle to increase their real incomes. It pushes interest rates higher as lenders try to protect themselves against repayments in cheapened dollars.

While no one has ever suggested a complete answer to the business cycle, Keynesian economists—following after the great English economist, John Maynard Keynes, whose influential work, *The General Theory of Employment, Interest and Money* was published in 1936—have argued that appropriate government monetary and fiscal policies can dampen the cycle and prevent serious malfunctions.

Corporate planning.

Today's extraordinary juxtaposition of world-wide inflation in the midst of stagnation and unemployment provides a real test of Keynesian economics. It has been faltering badly. Within the current context of international financial disorder,

excessive indebtedness and increased monopolization, Keynesian policies to expand production have been excessively inflationary. Since inflation undermines the boom in ways just described, Keynesian economics has been self-defeating.

Nonetheless, traditional liberals, especially those like Sen. Hubert Humphrey (D-Minn.) with strong ties to organized labor, continue to advocate spending programs, tax cuts and low interest rates to reduce unemployment and prop up demand. But programs of this kind create inflationary pressures that undermine profits, investment and hence prosperity.

The suspicion grows that liberalism of this kind can only lead to a new kind of government planning. The Humphrey/Hawkins bill promoting "full" employment and the Humphrey/Javits bill on behalf of balanced growth and economic planning are but precursors of broader as well as more specific forms of government economic intervention.

In effect the "planners," who number among them such luminaries as Thomas B. Watson of IBM, Henry Ford II and Felix Rhatyn, partner in Lazard Freres and chairman of New York's Municipal Assistance Corporation (Big MAC), wish to go beyond the Keynesian regulatory framework, which is *general* in nature to specific *individual* controls on prices, wages and resource allocation. They also hope to create new federal agencies to mobilize huge agglomerates of capital for private investment that otherwise might not be made, especially in the development of new sources of energy. Conservatives such as Arthur F. Burns

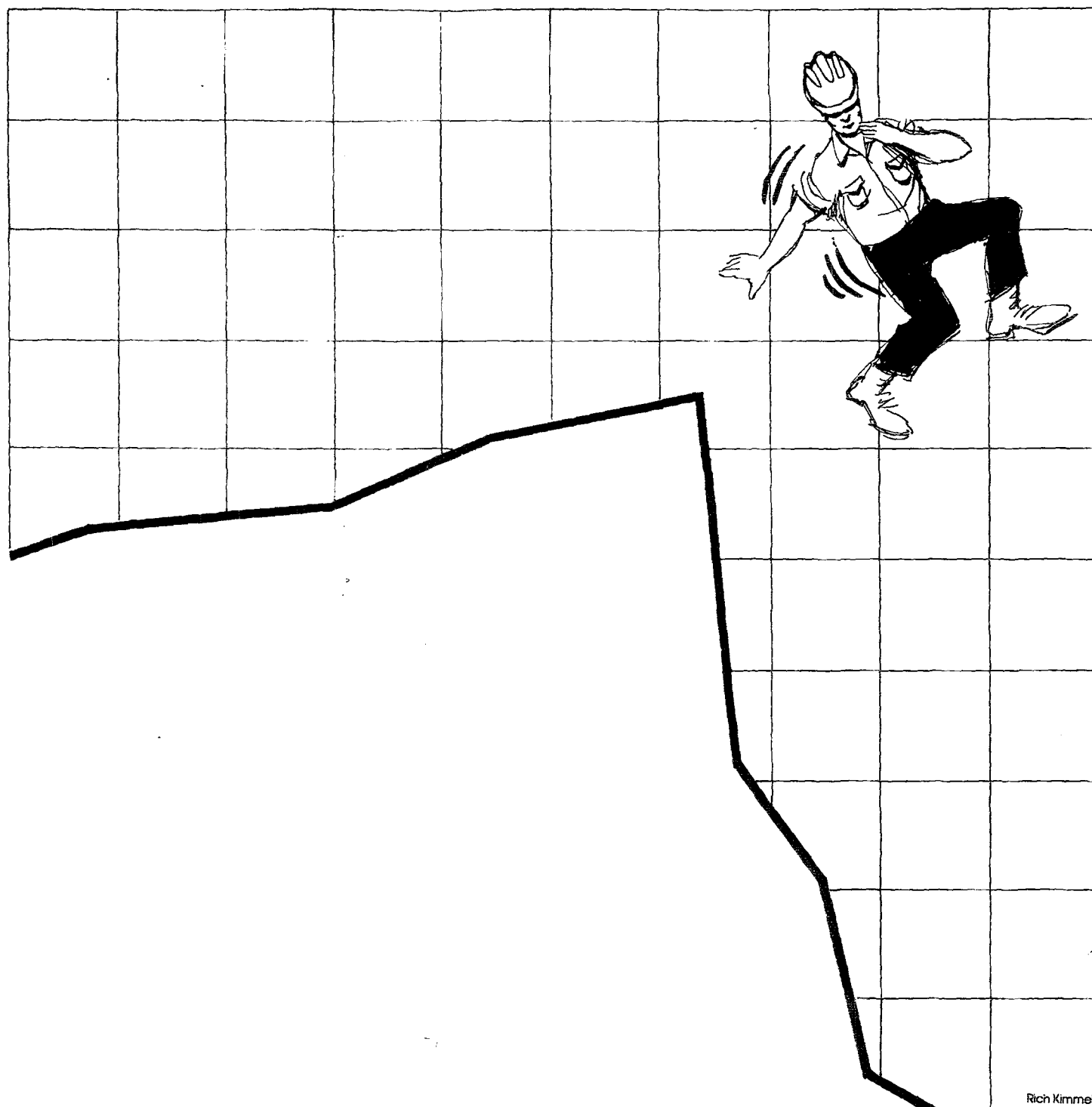
of the Federal Reserve have their own variant of economic planning—Burns himself calls for a job creation scheme with pay considerably lower than the minimum wage. Their programmatic efforts are rooted in the fact that profit rates have been in sharp decline since the mid-'60s, though improved somewhat of late.

From this perspective what is needed is a prolonged period of economic austerity designed to reduce wage pressures, inflation and interest rates. The current wave of attempts to roll back social services in the fiscally distressed northeast cities can be interpreted as the urban clause of this national austerity plan.

Carter, like the Republicans before him, has accepted the conservative attitude of providing just enough fiscal stimulus to keep the momentum of recovery but little more, lest inflation be renewed. For a while—during the early fall of '76 and again during the bitter winter that followed—it even looked as though the economy would crash for lack of fiscal acceleration.

To the extent a slow-paced advance can be maintained, corporations benefit from the diminished wage pressures that continued unemployment creates. Conservatives also hope that controlled growth will "correct" the inflationary distortions that every boom creates—speculative buying of inventory and stocks, overbuilding of capacity, and financial excesses—in an orderly and contained fashion.

But conservative "fine tuning" is no more apt to be successful than its liberal



Rich Kimmel

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Keynesian counterpart. The disorders in the world capitalist economy are too deep to be controlled in a permanent way by tinkering of this sort.

Will labor remain passive?

The immediate likelihood is another year of economic advance—even boom—if by that term we mean accelerating rates of inflation, tight labor markets, sporadic shortages reflecting the push of production against the physical limits of capacity and speculative overbuilding of inventory to take advantage of rising prices.

Exceptionally well managed, a boom could extend until 1979, although this seems unlikely. The inevitable recession will doubtlessly push unemployment rates to unprecedented post-World War II highs.

Lurking in the background is the very real possibility that an ever-shaky financial system based on unpayable debts will collapse sooner rather than later, plunging us into a depression more like the '30s than most business analysts believe possible.

Conservative experiments in austerity can continue only as long as workers and organized labor remain passive and docile. Should the vast but veiled resentment and discontent express itself more visibly in strikes and political demonstrations, we would likely see Jimmy Carter or his successor emerge quickly as "liberal" planner. At that point the field of class conflict would likely shift in large part to the political arena. Presidential (or congressional) boards controlling wages and prices would be its probable focus.

At any rate, some mix of austerity and capitalist planning lies ahead.

David Mermelstein, editor of *The Economic Crisis Reader* (Vintage, 1975) and co-editor (with Roger E. Alcaly) of *The Fiscal Crisis of American Cities* (Vintage, 1977), heads the New York bureau of *In These Times*.

Illegal aliens—the new scapegoats

Introduction

"Illegal aliens," workers who enter the U.S. without proper documents, have been in the news a lot lately. Most of the coverage focuses on Mexican workers, who cross the border to work in fields, restaurants, hotels, and homes for low wages. They live in constant fear of being turned in to the Immigration police., yet each year their numbers grow. One source estimates that 10 percent of Mexico's population lives in the U.S.

The following three articles highlight aspects of the situation. The first describes a study done in San Diego that refutes common myths about illegal workers. Such workers do not take jobs from citizens, drain the local government of welfare funds or cause a rise in street crime, the report shows.

The next article sums up the Carter administration's approach toward illegals. Carter's plan would penalize employers, a first in the U.S., where only the undocumented workers themselves have been punished in the past. But the plan may trample civil liberties, and doesn't get to the root of the problem, according to Carter's own spokespeople.

The final article describes the plight of long-time illegal residents who have children who are American citizens. When the parents are deported, the children, though citizens, are forced to leave, too.



San Diego study shows aliens give more than get

By David Helvarg
SAN DIEGO—If one were to believe groups as diverse as the Ku Klux Klan, the U.S. Chamber of Commerce and the executive board of the AFL-CIO, the "illegal alien" is a major contributing factor to the economic crisis confronting America today. According to them, "illegal aliens" are responsible for much of the country's street crime, drain the local tax-base through the collection of welfare and food stamps and take away jobs that might otherwise go to out-of-work Americans, thus creating unemployment and recession.

On July 15, 1975, the Board of Supervisors of San Diego County decided to do just that. They approved a special research study to be conducted by the County Human Resources Agency to determine the socio-economic impact of illegal aliens living in San Diego.

Seventeen months later a final report was submitted to the board for approval. On March 15 the board voted to accept the 206-page report and to direct their lobbyist in Washington to bring the report to the attention of various officials in the Congress and the administration.

The report, entitled *Impact of Illegal Aliens on San Diego County*, is generally agreed to be the most thorough, long-term research project of its type.

Its findings show that illegal aliens do not threaten American jobs and do not drain the economy, but conversely, because of their "illegal" status, provide an easy source of cheap, exploitable labor for American business, particularly agribusiness.

Few illegals receive welfare.

According to the report, "San Diego County is the most highly impacted area in the world in relation to the problem of illegal immigration. In 1976, 267,711 illegal aliens were apprehended in the San

Diego region, over one-third of the national total."

It estimates that there are 92,000 illegal aliens living in the city. Some 65 percent are estimated to be holding jobs, mostly in agriculture (30 percent) and in services (44 percent).

The average illegal is said to earn \$2.10 an hour or \$4,368 a year. Although not required to pay any federal or state income taxes due to their low income bracket, the report found that over 80 percent of job-holding illegals were, nonetheless, having taxes withheld by their employers. This added up to nearly \$49 million a year in San Diego alone.

The report went on to state that while qualifying for social service benefits through this tax contribution (17 percent of their wages) few illegals were actually able to receive benefits.

"General Relief and the Food Stamp program revealed no cost impact by illegal aliens, due to the extremely rigid qualifying requirements and procedures," said the report.

Indeed the largest outlay of government funds for undocumented aliens (outside of law enforcement expenditures) went for indigent burials: "From April 1975 through June 1976 a total of 41 illegal aliens were provided burial services at a County cost of \$8,079."

Security barriers ineffective.

The report also tackles the question of whether undocumented aliens are holding down jobs that might otherwise go to local residents. It based its findings on two investigations: one conducted after 2,154 aliens were apprehended on the job in Los Angeles, another based on the INS seizure of 340 working aliens in San Diego. In both instances it was found that the job slots vacated were not filled by local residents.

State officials found three reasons for

their inability to place local residents in these jobs: 1) most employers paid less than the minimum wage, 2) the job categories (agricultural work, garment work, etc.) were not appealing to locals, 3) applicants were discouraged by low wages, difficulty of the work and the long hours demanded by the employers.

Most of the vacated jobs were eventually refilled by illegals or else went to "Green carders" (day laborers from Tijuana).

In the area of law enforcement and crime the report found that while millions of dollars are being spent to apprehend, detain and repatriate illegal aliens, three times as many people continue to get through the security barriers as are caught. An estimated 10 percent of Mexico's population now resides in the U.S.

With the increased flow of illegals across the boarder has come an increase in crime, not against American citizens but against the illegals themselves. Border bandits and gangs have stepped up a campaign of murder, rape and robbery secure in the knowledge that only about 10 percent of the crimes they commit

against illegal aliens will be reported to the police.

Finally, in determining concerns of the Chicano community on the issue of immigration the report found: opposition to "highway check-points" established by the border patrol where "suspected illegal aliens" (all people with brown skin) are stopped; opposition to the Rodino bill and to any kind of Bracero type program that might be reimplemented; fear of a recurrence of the "repatriations" of the '30s when tens of thousands of Spanish-surnamed people were deported without regard to their legal status; the deportation of underage illegal aliens without their parents' knowledge; slanted news media accounts that blame the illegal alien for the depressed state of the economy; the need to expand legal immigration quotas for the western hemisphere; and the need for an amnesty for those illegal aliens who have lived here for some amount of time (one suggestion was amnesty for all those who arrived before July 4, 1976).

David Helvarg is a freelance writer in San Diego.

Carter's proposals would focus on the employers

During the 1930s tens of thousand of white farmers were forced off the land in the dustbowl states. They migrated to California, swelling the agricultural labor force. The American government then "discovered" the cause of high unemployment at that time was foreign labor working in th U.S. illegally.

In 1971 about the time unemployment rates began to rise, the government once again discovered the problem of "illegal aliens." The Immigration and Naturalization Service, charged with enforcing immigration laws, beefed up Border Patrols on the Mexican border, and caught many individuals trying to get over in search of work. In 1976, for example, they apprehended 875,000 people expelling 765,000. INS estimates, however, that there are

still between six and eight million illegals working in the U.S.

Now, President Carter has a package of proposals that he hopes will solve the problem of illegal aliens.

Among the provisions in Carter's proposed legislation:

- civil fines for employers who knowingly hire illegal aliens;
- amnesty for those individuals who already have been within the U.S. long enough to build up substantial "equity" in this country;
- tighten enforcement of existing wage-and-hour and working condition statutes to minimize the employers' incentives to circumvent the law and hire illegal aliens;
- tougher enforcement of the physical