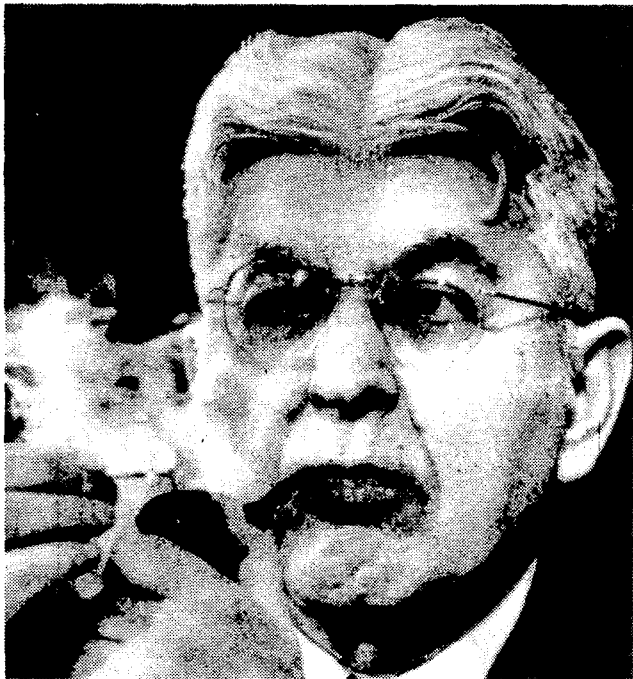


THE INSIDE STORY

JOHN JUDIS



Arthur Burns

Arthur Burns vs. G. William Miller

In his year-long conflict with the Carter administration, Federal Reserve chief Arthur Burns won most of the battles, but he lost the war.

He got Carter to withdraw his \$50 tax rebate, to begin "talking up" rather than "talking down" the dollar, and even to drop his tax reform proposal in favor of simple tax reductions aimed at increasing business confidence.

But on Dec. 28, Carter announced he was nominating G. William Miller to replace Burns.

The decision to replace Burns reaffirmed an underlying philosophical difference that Carter's vacillations on specific programs had tended to obscure. Carter believes that through state action America's economy can be shaped to serve his political priorities, including reduced unemployment.

Arthur Burns has always believed that political priorities must take second place to the imperatives of the business cycle and business confidence, even if it means social hardship.

This difference on politics and economics led to Burns' dismissal by Carter. Far from being an isolated difference of opinion, it runs right through America's corporate and political leadership, and was the reason why the public debate around Burns' reappointment grew so heated.

The seeds of recession.

Burns was a student of business cycle theorist Wesley C. Mitchell, and he brought to his policymaking career, beginning with his appointment as head of Eisenhower's Council of Economic Advisors, certain of Mitchell's key assumptions.

Burns believe that the business cycle was unavoidable. The purpose of government policy, Burns explained in a 1958 essay, was not to "prevent all contractions but rather to maintain an environment that curbs excesses from which recessions often spring and to keep such recessions as do occur from degenerating into severe depressions."

Like Mitchell, Burns believed that recessions could play a positive role by eliminating inefficiency and driving down wages and prices to the point where investment and expansion became profitable once more. He invoked this principle during the 1974-75 recession.

In intervening to stimulate expansion, Burns adopted Mitchell's emphasis on business confidence. If a government acted to discourage confidence, the recovery would be thwarted, such as occurred, according to Burns, in the '30s. Consequently, Burns favored fiscal measures that would increase profitability (e.g. investment credits) and opposed any measure that would hamper profits (e.g., tax reform).

He also adopted Mitchell's belief that the "seeds of

recession were in the previous recovery." If a recovery were artificially sustained, and inflation allowed to spiral, as happened, for instance, in the late '60s, then it could be expected that the recession would be more severe than usual.

If, as a consequence of these views, Burns found himself encouraging greater unemployment, or fighting against measure to redistribute income, he justified his position on the basis of economic necessity.

Attack on Carter.

Burns recognized that the present recovery has been weak, especially in terms of business investment. But he argues that policy has to be geared to stimulating investment without planting the seeds that would deepen the recession Burns expects in late 1978 or 1979.

Burns therefore followed what he saw as a "middle road." He advocated a tax cut for business to spur investment; he opposed Carter on raising the minimum wage, social security tax increases and tax reform because they would threaten profitability and endanger business confidence; and after expanding the money supply in the 1972 pre-election months, he applied the breaks on the money supply so that higher prices would not discourage business planning and precipitate a deeper recession later.

He paid little obeisance to the goal of full employment. No politician openly advocates unemployment, but Burns, it was clear, rejected any jobs program that might threaten wages and prices and therefore profits.

The conflict between Carter and Burns culminated last October. The Fed had for two consecutive months raised the interest rate on bank loans from the Federal Reserve and from each other. Burns took these actions to restrict demand and protect the value of the dollar overseas, but they also hindered business expansion by driving up the interest on bank loans to consumers and businesses. The Carter administration made an oblique but unmistakable attack on Burns.

Burns responded by advocating and winning another rise in bank interest rates, and on Oct. 26 he delivered a speech in Spokane, Wash., in which he attacked the Carter administration's legislative program for its effect on business confidence. It was probably at this point that Carter decided to can Burns in spite of his widespread business support.

The man from Providence.

Philosophically, in the tradition of the Roosevelts, Carter believes that through state action and informal co-operation between business and labor, class conflict can be limited and the extremes of capitalist irrationality allowed. In 1975, that means believing that unemployment can be reduced, social programs can be expanded, and business investment can be stimulated without creating rapid inflation, and, eventually, a sharp recession.

Carter's choice to replace Burns thinks this can be done.

G. William Miller was the president of Textron, a Providence, R.I.-based multinational corporation whose most well known product is Bell helicopters. His Democratic credentials are good. He has been active in Rhode Island Democratic party politics, except in 1972 when he backed Nixon. He served under John Kennedy as the chairman of the Industry Advisory Council of the Equal Employment Opportunity Commission. He was also chairman of the National Alliance for Businessmen, which seeks jobs for the "hardcore unemployed."

His corporate credentials are also impressive. He served six years on the Boston Federal Reserve Board, and he was the chairman of the Conference Board, a high level research and policy group among corporate

leaders. He was the choice of Carter's top business advisors, Dupont's Irving Shapiro and General Electric's Reginald Jones.

Like Carter, Miller is an advocate of active state intervention in the economy. In a speech last January to Pittsburgh's Traffic Club, entitled "The Not Impossible Goal: Full Employment and Price Stability," Miller rejected Burns' approach of letting high unemployment and tight money keep inflation down. "In today's climate," Miller said, "the nation is not prepared to suffer either the level of unemployment which would be needed or the length of time which would be sufficient to control inflation through this method."

Miller calls for increased monetary and fiscal stimuli, national manpower programs, and investment tax credits to get business to create new jobs. Citing a Conference Board article by MIT economist and fellow Boston Fed member Robert Solow, Miller charges that the dangers of an inflationary spiral resulting from these measures have been widely exaggerated. But if "mushrooms of inflation pop up," he favors "selective management" of investment, wages, and prices.

Having remarked on the unpopularity of such measures, Miller "does not propose to dwell on this point," but "selective management" is clearly as much on his agenda as it has been on Carter's. In a 1974 *Business Week* opinion piece, Miller advocated selective controls on investment credit according to the type of investment and a "two or three year moratorium on strikes with a requirement for arbitration of disputes."

Roadblocks ahead.

But philosophical differences and ambitious programs often pale before practical realities and political inexperience. While Miller and Carter would evidently like to steer a different course from Burns', they may not be able to.

They may not be able to rekindle private investment without much more drastic measures than they presently contemplate. The American investment slump is part of a worldwide trend among industrial capitalist nations, the result of growing overcapacity relative to demand. American private manufacturers upon whom Miller is counting to expand domestic employment have tended to invest their profits in labor-saving machinery or outside their own industries. Much more than investment credits would be necessary to get American steelmakers to expand their capacity, or to upgrade America's railroad services.

Miller's easy money policies are also likely to be constrained by the U.S. trade deficit. Carter tried to improve the American trade position by letting the dollar slide in value, but he backed down in December when the Saudis threatened to discontinue using the dollars as the medium of international oil payments. The conventional means to reverse trade deficits without devaluation or protectionist measures is to hold down domestic demand for imports and check credit through tight money policies, the course that Burns has followed.

In order to get American corporate heads to expand their businesses and to check the falling dollar without recourse to tight money policies, Miller and Carter would have to be prepared to intervene much more directly in the investment sphere and in wage and prices than Miller anticipated in his Traffic Club speech, or than Carter has been willing to discuss publicly. If they seek to do this, they will be met by widespread opposition from business and labor.

Carter's record for getting his programs adopted in the face of opposition is certainly not very good. Miller has had no political experience, and there is no reason that they could succeed at selling the heights of state capitalism where Carter could not even sell the lowlands.

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NUCLEAR

Exposed GIs in danger

By Michael Uhl
and Tod Ensign

Shortly before dawn on Aug. 31, 1957, 3,000 "volunteer" troops of the 82nd Airborne and 4th Infantry Divisions were roused from their tents in the desert of Yucca Flats, Nevada. Army "duece-and-a-halves" trucked them to within one and a half miles of ground zero—a 700-foot tower, atop which an atomic bomb would be detonated.

As the count down began, the GIs were ordered from their trenches, told to turn their backs on, in some cases, lie on the ground, and to cup their hands around their eyes. One battalion was instructed that they would actually see the bones in their fingers through their closed eyelids. This was "normal," they were assured; there was "no cause for alarm."

Then, a 44-kiloton bomb, twice the size of those used at Hiroshima and Nagasaki, temporarily eclipsed the rising sun.

When the dust, radioactive and otherwise, settled, the troops performed maneuvers in the contaminated area for two and a half hours.

The men wore ordinary uniforms, with film badges to register radiation exposure. Following the exercises, no ill effects attributable to the blast were reported, according to a recent Pentagon statement.

Now, 20 years later, evidence is accumulating that links exposure to radiation at the Yucca Flats test, code-named "Operation Smokey," with a statistically significant incidence of leukemia among the GIs present. Some evidence suggests that genetic birth defects may also be higher than normal among their children.

Leukemia victims.

The successful disability claim of a dying veteran, Paul Cooper, 43, of Emmett, Idaho, has prompted the belated formation of an inter-agency working committee in the federal government to direct a country-wide search for those who took part in Operation Smokey.

Officials report that of the 432 participants who have been located to date, at least six are known to be suffering or to have died from leukemia. The percentage is already several times the national average for men in a comparable age group.

Another victim, Donald Coe, a farmer from Tompkinsville, Ken., has filed a claim with the Veterans Administration in which he alleges that his leukemia is service connected. Coe provided the account of Operation Smokey described above.

A 25-year-old Pfc. at the time of the maneuvers, Coe, now married with seven children, told of his apprehension when he was selected for temporary duty at the Army's Camp Desert Rock. "They told me I was picked because of my security clearance. I didn't want to go, but I was forced to, even though the duty was described as voluntary. They said, 'There's nothing to be concerned about; we're just going to watch an atomic blast'."

Coe witnessed at least eight atomic "exercises" during his stay at the Nevada installation. "As I lay on the ground," he said of one experience. "I felt a wave of heat pass over my body. It felt like something hot was sticking to me." Despite the Defense department's claim that no ill effects were reported, Coe says he was hospitalized after the blast with severe headaches, dizziness and bleeding from the nose.

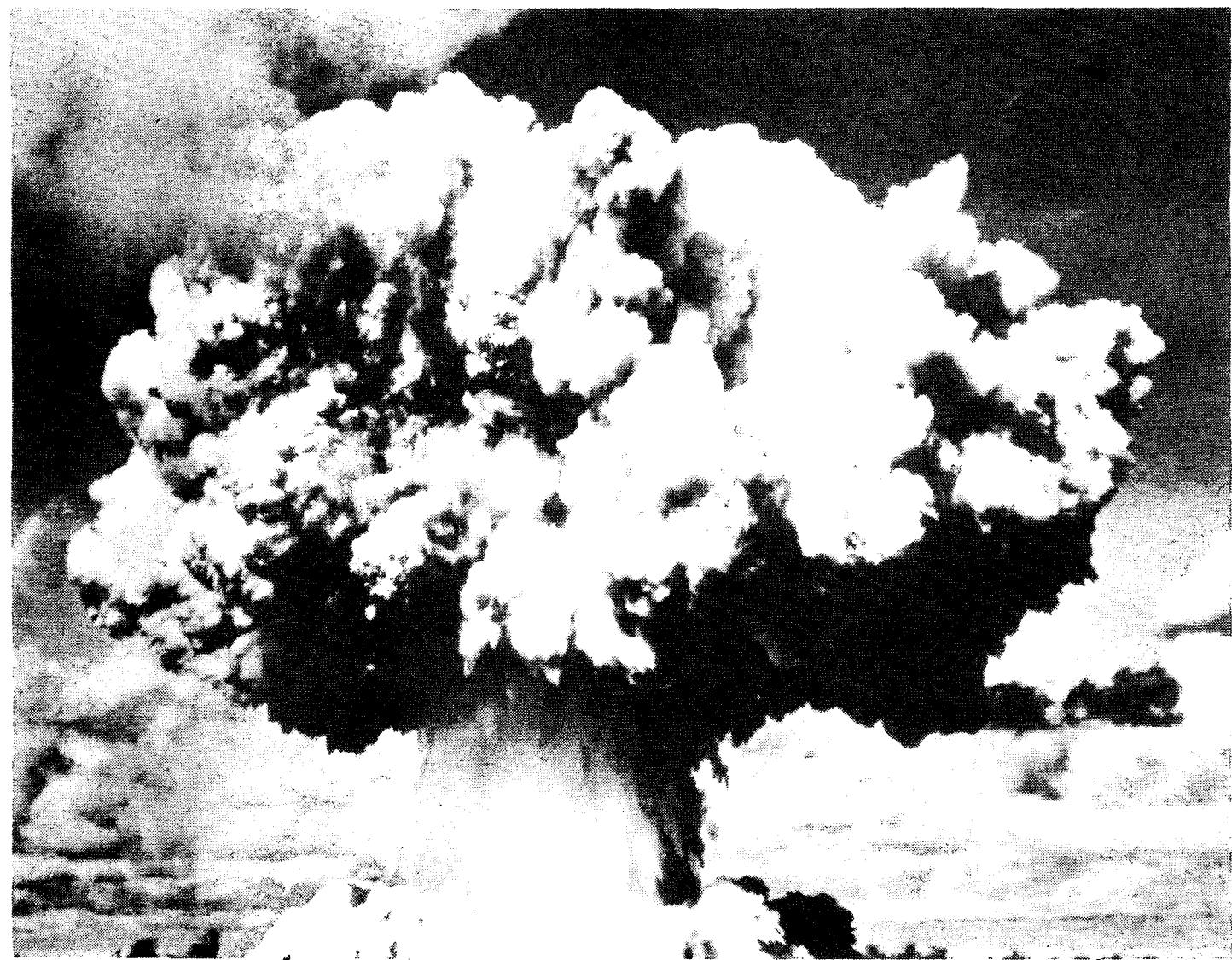
The VA maintains, however, that it cannot locate these hospital records. The agency also contends that Donald Coe absorbed no more radiation than the average person receives from a normal chest X-ray. Donald Coe's disability claim has been denied. He is currently appealing with the help of his Representative and the Disabled American Vets.

Disability demanded.

A West Coast peace organization, Another Mother for Peace, has also taken up Coe's cause. AMP has charged that



"There's nothing to be concerned about; we're just going to watch an atomic blast," the Army told Pfc Donald Coe (above with baby) in 1957 prior to "Operation Smokey." Now he has leukemia.



the Atomic Energy Commission and the Pentagon were guilty of "criminally inhuman actions in deliberately exposing hundreds of thousands of Americans to atomic bomb radiation." The group is demanding that the government provide service-connected disability payments to those suffering damage from the tests and death benefits to their families.

Between July 1945 and June 1976 the

U.S. detonated 588 atomic devices, including those used against Japan. The number of people exposed to radioactivity from these blasts may be quite high. Another Mother for Peace refers to "hundreds of thousands." But Dr. Glyn Caldwell of the National Center for Disease Control, which is investigating the epidemiological impact of Operation Smokey, puts the total number that may have been

exposed at two million.

In an interview with *IN THESE TIMES* Caldwell said that the preliminary search for Smokey victims has already taken a year. He predicts that the center will need another year to complete its polling and questioning of victims before it will be able to furnish a detailed report.

Michael Uhl and Tod Ensign work with *Citizen Soldier* in New York.