

81-7, 25

# PROBLEMS of U. S. CAPITALISM

*Harry Magdoff*

Harry Magdoff lectures on economics at the New School in New York City, and elsewhere. He is a business consultant. This article originally appeared in The Socialist Register, 1965, published by Monthly Review Press and available from them at 116 W. 14 St., New York, N.Y. 10011.

published by  
Radical Education Project  
Box 625, Ann Arbor, Mich.

New England distributors:  
New England Free Press  
791 Tremont St  
Boston, Mass. 02118

## PROBLEMS OF UNITED STATES CAPITALISM

Harry Magdoff

WAVE upon wave of prosperity, accompanied by ever higher levels of production and consumption, nourish the belief that the U.S. economy has found new sources of strength and that remaining weaknesses can be fairly easily overcome. The main reasons for this renewed faith are advanced in varying degrees by both radical and conservative commentators: (1) the new technology is in effect a second industrial revolution and is performing a rôle similar to the first industrial revolution in fostering long-range economic growth; (2) the new competition between socialism and capitalism induces extensive aid and investment in the Third World, which in turn creates new markets for advanced capitalist countries; (3) the political acceptance of the Welfare State as a necessary approach to social development; and (4) the availability of an economic "tool box" which can be used to manoeuvre a capitalist economy so as to avoid serious crises.

Since the U.S. is the leading and dominant member of the capitalist world, the set of ideas that are used to explain its success are easily extended to actual or potential developments in other capitalist countries. As these ideas spread and become entrenched they often become implicit assumptions—almost axioms—for further thinking and action. In one fashion or another they have entered into the programmes and practices of socialist parties and trade unions in the capitalist world, into the economic and political planning of governments in the Third World, and even into some of the brave new thinking and planning of some sectors of the socialist world.

It is of course important that political programmes and policies are adapted to new circumstances with the help of theory which adequately explains the changed circumstances. But the difficulty with a good deal of the thinking about the new capitalism is that it seems to be influenced not so much by critical study as by an eagerness to discover the "new" as distinct from the "old" or by the usefulness of the new ideas in serving particular political goals.

Support for this inference arises from an examination of some of the key features of recent U.S. economic developments. Among the facts of U.S. economic life which call for a more realistic appraisal of the new capitalism are the following: (1) an economy that has not been able to achieve reasonably full employment in any year since 1953; (2) an economy that but for the military effort might have from 20 to 24 million unemployed; (3) an economy which in addition to the

reliance on military spending is growing increasingly dependent on injections of credit; and (4) an economy in which after twenty years of prosperity, fully a third of the young men of military age do not meet required standards of health and education.

### *Failure in Performance*

The outstanding aspect of U.S. economic performance is that over 8 per cent of the labour force is unemployed and almost 10 per cent engaged in the armed forces or employed to meet military requirements. In other words, at the peak of its prosperity the civilian economy—private capital, government and non-profit institutions—is able to utilize only 82 per cent of the labour force.<sup>1</sup> One might argue that this is not a fair evaluation since the very existence of such a large military undertaking might inhibit the expansion of the civilian economy. Such an argument would be significant if there were full employment and a shortage of industrial capacity and raw materials. But this is not the case. Not only is there idle labour, but idle machinery, capacity to make more machinery, and a good supply of raw materials—enough to attain full employment if the economic and political institutions were able to do so.

But this is far from the whole story. The more than \$55 billion spent annually on what the government agencies classify as “national defence” has a chain-reaction effect on the rest of the economy, just as other forms of investment and spending have a “multiplier” effect. It is estimated that for every \$1 spent on “national defence” another \$1 to \$1.40 of economic product is stimulated. A crude, but conservative, calculation shows that in addition to the approximately 7.4 million people engaged in some phase of “national defence,” another 6 to 9 million are employed due to the economic stimulus of defence spending.<sup>2</sup>

All this adds up to the rather striking conclusion noted above: some 20 to 24 million persons, out of a labour force of 78 million, are either unemployed, engaged directly or indirectly by “national defence” projects, or employed because of the economic stimulation of these projects. While the non-utilization of such magnitudes by a civilian economy would be of crisis proportions, we are not at this point engaging in the popular game of “what might have been if . . .” or “what may be if. . .” The estimates are presented here merely to get a more realistic evaluation of the success pattern of the U.S. economy.

One observation though is needed, in this context, about the special bearing of military spending on the business cycle. Without discussing causes, the mechanics of the cycle are such that the capital goods industries are the major elements of up-and-down business swings. The post-war recessions followed this traditional pattern. Thus, in the 1957–58 recession the production of consumer goods declined 5 per cent while the production of equipment goods went down 20 per cent.

The special relevance of military spending in the business cycle is not so much its size as its concentration in the industries that do most of the swinging. For example, federal government spending generated the following percentages of total demand in capital goods industries: engines and turbines, 20 per cent; metal-working machinery and equipment, 21 per cent; electric industrial equipment and apparatus, 17 per cent; machine-shop products, 39 per cent.<sup>3</sup>

Thus, military spending acts as a very convenient backstop at the strategic weak spots of the business cycle. It also acts as a special defence arm of business profits. The volatility of business profits is related to the basic overhead costs of running a business. Once sales are large enough to meet overhead costs (the break-even point), profits rise much more rapidly than further advances in sales. Conversely if sales drop sufficiently below the break-even point, losses accumulate at an increasing momentum. Mild recessions can thus turn into severe depressions if losses in key capital goods industries force complete shut-down of many plants. However, the orders for military goods in the otherwise vulnerable industries help to pay for overhead costs, build resistance to depression losses, and inhibit the cumulative effects of recessions. In similar fashion, the strategic concentration of military procurement in metals and machinery can keep prices high and thus raise the general profit level of capital goods industries.<sup>4</sup>

#### *Declining Importance of Capital Investment*

The failure of the civilian economy to fully utilize the economic resources of the country is reflected in the declining rôle of capital investment. Thus, total investment in fixed capital (producers' durable equipment and non-residential construction) represented 10·3 per cent of the gross national product (the total output of goods and services) during the years 1947-57. This percentage declined to 8·6 per cent during the years 1958-64.<sup>5</sup>

This is hardly the behaviour of an economy that is spurred ahead by major technological changes, let alone by an industrial revolution, whether first or second. Note that the above percentages are based on total investment in plant and equipment: capital goods needed to replace worn-out equipment as well as net additions to the stock of capital. Since the replacement needs are increasing, the relative decline in net new capital (over and above replacement needs) would be larger than indicated above.

Note also that in recent years a larger percentage of the total investment has been going into office buildings, shopping centres, banks, etc., rather than in the kind of productive equipment used to make new or more products. In 1957 only 28 per cent of the total expenditures for plant and equipment went into commercial enterprises (as distinguished from manufacturing, mining, transportation and public utilities). In 1964 the proportion rose to 34 per cent.<sup>6</sup>

Nor is this the whole story. The capital that was invested for the purpose of expanding the production of goods, after the initial post-war boom, was used in large measure to meet military needs. The evidence for this is seen in the specially large rôle of military demand in most of the growth industries—in those industries with an expansion rate that could only be achieved by investment in new plant and equipment. In 1958, for example, purchases by the federal government accounted for the following percentages of total demand in important growth industries: radio, television and communication equipment, 41 per cent; electronic components and accessories, 39 per cent; scientific and control instruments, 30 per cent; aircraft, 87 per cent.<sup>7</sup>

The declining relative importance of capital investment, even in the face of substantial military needs, should come as no surprise if one takes into account the tendency in a capitalist economy for productive capacity to outpace effective consumer demand. Nor should the relative weakness of capital investment in the midst of significant technical changes be especially unexpected considering the decisive way the large corporations can, if they have enough power, protect their "old" capital investment when it is in their interest to do so. Evidence presented before the Subcommittee on Antitrust and Monopoly of the U.S. Senate confirmed the potential power of the large corporations and the post-war increase in such power. The 100 largest manufacturing corporations, it was shown, held close to 57 per cent of the net capital assets of all manufacturing companies in 1962, as compared with close to 46 per cent in 1947.<sup>8</sup>

One area of capital investment, on the other hand, did show a striking move forward: foreign investments by U.S. capital. The total flow of capital out of the U.S. in the form of direct investments added up to \$6.3 billion for the combined years 1947-55. This jumped to \$15.8 billion for the years 1956-64.<sup>9</sup>

The analysis of this change in relation to U.S. foreign policy and imperialist involvement is beyond the scope of this article. What is significant for the present discussion is that this upsurge in investment, along with U.S. Government loans and grants to other countries, helped to support demand for U.S. production of equipment and metals.<sup>10</sup> These, as noted above, are the industries which are most vulnerable to cyclical decline.

Important as the high level of exports of machinery and other manufactures may be to the proper functioning of the U.S. economy, the increase of such exports—or even their maintenance—may become increasingly difficult. The trouble is not only the competition of other industrialized nations; it is concerned with the persistent negative balance of payments the U.S. has been experiencing in recent years.

The popular explanation of the negative balance of payments usually points to the excess of U.S. exports over imports of goods, and then pinpoints the balance-of-payments illness on military spending abroad,

aid to other countries, and private foreign investments. What is usually ignored is the interrelation between U.S. foreign policy, its economic and political activity in the rest of the world and its export markets. (Note, for example, that in 1963 alone, foreign affiliates of U.S. industrial companies bought at least \$5 billion of U.S. goods. This represented about 23 per cent of all U.S. exports of merchandise in 1963.)

Obviously the adverse balance of payments cannot go on for ever within the present political and economic arrangements among nations. However, the U.S. may not be able to reduce its financial contributions and also maintain its export volume. Nor can the solution be sought via foreign investments. For the facts are that the U.S. takes in more than it sends out as a result of foreign investment: from 1956-64, U.S. corporations sent out \$16 billion for direct foreign investments; in the same years the rest of the world returned to the U.S. about \$23 billion as dividends, interests and branch profits resulting from direct investments.<sup>11</sup>

Neither the reduction of the flow of foreign investments nor an increase in foreign investments (except in the unlikely event that foreign investments continue to grow at an increasing rate) will remedy the situation. For the excess of what U.S. corporations draw out of foreign countries over what they send in is a direct result of the mathematics of such investment. In fact, this behaviour is the reason corporations make foreign investments. But inevitable as this imbalance may be, it also creates other problems. When other countries reach difficulties in repaying their loans to the U.S. or paying out the continuous profits on U.S. investments, their recourse is to try to increase their exports to the U.S. and to reduce their imports from the U.S. This can be a difficult pill for the U.S. to swallow so long as it is unable to sustain enough effective demand internally to keep its own labour force fully employed.

#### *The Economy Grows on Credit*

The initial post-war boom—say, the first eight to ten years—had real roots in the private market economy: on the one hand, the need to build up stocks of capital investment goods, housing, and consumer durable goods (cars, household equipment) which had been neglected and had deteriorated during many years of depression and war; on the other hand, the ability of the private market to finance the purchase of these goods due to the large accumulations of savings under the New Deal's wartime economic controls. The post-war boom was strengthened at first by the U.S. dominant world trade position (arising from the war devastation of other industrialized nations) and then intensified and given new life by government spending for the Korean War.

The boom fed itself for a period, bringing with it new peaks in housing, construction, capital investment, and a multitude of consumer goods. But even this boom was inadequate to provide full employment.

Moreover, the capital investment stimulus began to peter out after 1957, as suggested by the data given above.

Since 1957, in the absence of a private-economy based boom, military spending stepped in as a revitalizing force. "National defence" expenditures rose continuously from \$44.4 billion in 1957 to \$56.8 billion a year in 1963 and in 1964. Whether this action was in response to economic need or for a "higher" political purpose is not germane to the present argument. What is important though is that this type of dynamic prop, together with foreign investment and government military and economic activity abroad, gave a significant boost to the economy and also helped to shore up the more vulnerable, the more unstable, economic sectors.

Such strong stimulation was still not enough to keep the economy at prosperity levels: what was needed, it turned out, was heavier and heavier doses of debt. Even the state and local government could not keep up their governmental obligations and thus make their economic contribution as well without an increasing reliance on debt. During the ten years prior to 1957, state and local governments added on the average a little over \$3 billion a year to their total debt load. Since 1957 these government units have been adding close to \$6 billion a year.<sup>12</sup> The debt-creating ability of lower government organizations is quite different from that of the federal government because the states and local units do not have the power to create and regulate the supply of money and credit. Their debt-carrying capacity is ultimately limited by their revenue-raising ability, which is quite inferior to that of the federal government. To the extent that a rise in state and local government spending depends, as in recent years, increasingly on a greater proportion of debt, the inner limitations on debt expansion will inhibit expansion of this type of government activity.

While it is conceivable that the possible difficulties of lower governments' finances could be resolved by a drastic overhaul of the U.S. public finance and government structure, the same solution is not available for the private economy operating within a capitalist framework. The issue should become more apparent if we examine a few key facts. The net debt owed by private individuals and institutions (corporations, farms and individuals) increased on the average \$32 billion a year during the ten years prior to 1957. Since 1957 the average annual increase has been 50 per cent higher—close to \$48 billion a year.<sup>13</sup> Part of this rise is attributable to a higher price level. But this is a minor element; the noteworthy change is the relative increase in debt compared with the total private (non-government) gross product, the latter also reflecting higher prices (see figures on page 68).<sup>14</sup>

The danger here is not the debt itself. Credit is a useful financial instrument to help a complex economy function smoothly; it is especially useful to lubricate the mechanism of an expanding economy. Credit can serve as a handmaiden to a society in which productive

wealth is accumulating, on the basis of which the economy can keep on increasing its production and investment. But it is quite another matter when a semi-stagnant economy keeps on increasing its debt burden. For this is an economy which can continue to maintain itself on a fairly steady keel only with ever-increasing dosages of credit.

The dangers of such an eventuality are twofold. First, a weakness in the banking system that creates the credit can more readily result in a cumulative downturn of the economy. Second, to sustain an ever larger debt business eventually has to obtain larger profits to repay the debt, plus interest charges. In a semi-stagnant economy, larger profits cannot come from greater accumulation of capital but by reducing the share going to wages and salaries.

<i>Year</i>	<i>Gross Private Product</i> (in billions) \$	<i>Net Private Debt</i> (after repayments) \$	<i>Debt as a percentage of Gross Private Product</i> %
1945	178.4	139.9	78
1950	263.8	250.9	95
1955	363.5	402.5	111
1960	455.3	588.4	129
1963	526.7	752.9	143

The potential dilemma in this event is that wage and salary earners need to increase their income steadily since they too are spending and sustaining the economy by increased use of credit. From 1960-63 new mortgage debt on privately owned homes increased 40 per cent, from \$20 to \$28 billion. In the same period, there was no increase in the value of new housing construction of 1- to 4-family units. Another way of looking at these figures is that during these four years \$95 billion of new mortgages were added as compared with less than \$72 billion of construction activity on new private homes.<sup>15</sup> The reasons behind this strange discrepancy are no doubt: (a) the willingness of financial institutions to lend on easier terms, which also reflect inflated, speculative values, and (b) the desire or need by consumers to keep up the feverish pace of buying, which can only be maintained by stretching debt obligations.

A similar pattern is seen in the greater dependence of the consumer durable goods market on increasing injections of consumer credit. From 1960-63 the annual average instalment credit extended to consumers amounted to 88 per cent of all consumer durable goods purchased. This compares with 69 per cent in 1947-50.<sup>16</sup>

The net effect of all this borrowing is obviously a greater drain on consumer income. In 1951, 14 per cent of consumer income went to carry their debts (amortization and interest). In 1963 the figure was 21 per cent.<sup>17</sup> No arbitrary limit can be set on a safe maximum percentage of income for debt service. But a maximum there must be. And

to the extent that there is such a maximum, there is an eventual restraint on an economy which requires ever larger doses of credit to keep moving ahead.

### *Roots of Persistent Unemployment*

All of the special stimuli of recent U.S. economic development—military spending, foreign investment, and the spread of debt—working together have been unable to make any headway in resolving the problem of persistent unemployment. Quite the opposite: the trend of unemployment has been upward since 1953. Nor is there any evidence in sight that this trend will be reversed in the years ahead. As will be seen from the data, the problem of achieving full employment must become increasingly difficult.

The background information which can be used to appreciate the dimensions of the problem are presented in Table I. The first line of this

TABLE I—CHANGES IN LABOUR FORCE AND EMPLOYMENT

Years	Increase in	
	Labour Force	Employment
	<i>Total</i>	
	<i>(in millions)</i>	
1930-40	6.1	2.0
1940-50	8.5	12.2
1950-60	8.4	7.0
1960-70 (Projection)	12.6	—
1970-75 (Projection)	7.3	—

SOURCE: *Economic Report of the President* transmitted to Congress, January 1964, and *Manpower Report of the President* transmitted to Congress, March 1964.

table gives a bird's-eye view of the net effect of the depression years on unemployment. In contrast with future decades, the rise of over 6 million in the labour force was relatively small. The labour force is measured by government agencies to determine the number of people of working age who are looking for jobs. Because of the technique used in measuring the labour force, the 6 million increase may be understated since the absence of job opportunities discouraged many from looking for work. Be that as it may, the outline of the picture is clear for the 1930-40 decade. The 2 million net increase in jobs fell short by 4 million to meet even a conservative estimate of the number of new jobs required. This means that in 1940 there were 4 million more unemployed than in 1930.

The direction was completely reversed in the next decade as a result of war and immediate post-war needs. The growth of employment was large enough not only to provide jobs for all new workers but even to eliminate the unemployment created in the preceding decade. Hence, in 1950 unemployment was back to approximately the level in 1930.

The labour force continued to grow in the following decade by about the same amount as from 1940-50. But in those years the growth in employment slowed down. For part of the decade, as described above, there was a strong upward lift to the economy, resulting in a drop in the official unemployment rate below 3 per cent in 1953. Even this, it should be noted, was achieved with the assistance of a close to 2 million rise in the size of the armed forces. (Government estimates are based on the concept of the "civilian labour force." In this fashion the armed forces are excluded from data on labour force and unemployment.) The low "civilian" unemployment rate was short-lived, due to the subsequent slowing down in the general rate of economic growth. The net effect over the decade as a whole was the generation of more employment.

We now come to the nub of the present and future unemployment pressures. The labour force is bound to increase by more than 12½ million from 1960-70—an increase that is 50 per cent more than in the two preceding decades. The explanation for the enlarged increase in the labour force is quite simple. Earlier growth of the labour force was influenced by the declining birth-rate of the 1920s and 1930s. Birth-rates were especially low during the depression years. Consequently the increase in the labour force was relatively low in the 1950s, and especially so in the mid-'50s, when the babies born during the depth of the depression reached working age.

Today we are beginning to get the effect of the rise in birth-rates that accompanied improved economic conditions in the 1940s. But more important, the expansion of the labour force in the next five years will be even larger as a result of the so-called birth-rate explosion during the early post-war years. Nor does this unusually large increase in the labour force come to an end in 1970. As can be seen from the last line of Table I, projecting from the present population it is reasonable to expect that the labour force will grow by about 7.3 million from 1970-75. This five-year increase is almost as large as the ten-year increase between 1950 and 1960. In other words, the labour force will grow from 1970-75 at double the rate experienced from 1940-60.

Some simple arithmetic can provide us with the dimensions of the problem. To attain relatively full employment by 1970, close to 15 million new jobs would have to be added by 1970 as compared with 1960: 12.6 million jobs for the net additions to the labour force (see Table I) and about 2.2 million full-time jobs to reduce the unemployment rate to 3 per cent.<sup>18</sup> Neither the experience of the early '60s or of the past decade justify the expectation of employment increases of such a magnitude. Only during the period of massive intervention by the government during World War II, and while benefiting from the immediate aftermath of such government intervention, did the U.S. economy prove capable of creating anything near 15 million new jobs in a decade. And even that performance of 12 million jobs would, if duplicated, leave 5½ million unemployed at the end of 1970. In terms of

current developments, it is more realistic to expect 10 million unemployed—even if the economy can avoid a major economic downturn in the interim.

This analysis highlights a special feature of the post-war U.S. economy. The period of rapid capital accumulation coincided with a period of relatively slow growth of the labour force. This has shifted—and apparently will continue for some time ahead—to the opposite: a rapid rise in the labour force accompanied by a slow-down in capital accumulation. A key phase of the latter development is clearly illustrated in Table II.

TABLE II—JOB GROWTH GENERATED BY PUBLIC AND PRIVATE DEMAND  
(in millions)

<i>Item</i>	<i>1957</i>	<i>1963</i>	<i>Increase from 1957-63</i>
Total Non-farm Employment	52.9	57.2	4.3
Less Government Employees	7.6	9.6	2.0
Equals: Private Non-farm Employment	45.3	47.7	2.4
Less Jobs owing to Government purchases from business	5.9	6.7	.8
Equals: Jobs generated independent of Government spending	39.4	41.0	1.6
Less employment by non-profit institutions	2.6	3.3	.7
Equals: Jobs generated by private demand	36.8	37.7	.9
Less adjustment for voluntary part-time employment	1.7	2.3	.6
Equals: Full-time jobs generated by private demand	35.1	35.4	.3

NOTE: Detail may not add up to totals because of rounding off decimals. Government refers to Federal, State and local. Above data do not include the self-employed.

SOURCE: *Manpower Report of the President* transmitted to Congress, March 1964.

Starting with 1957—the year we have selected as in the nature of a turning point—and ending in 1963, 4.3 million non-farm jobs were added. Though not large enough to prevent a rise in unemployment, this increase was nevertheless significant in size. Now where did these jobs come from? Almost two-thirds of the additional jobs (2.8 million) arose directly or indirectly by government activity. If the jobs created by non-profit institutions (hospitals, universities, etc.) are eliminated, it turns out that only 900,000 jobs were generated by private market activity. And even that is not the full story. Many of these jobs were part-time. If an adjustment is made for the latter, then only 300,000 jobs were created by the private economy after six years—most of which were years of economic upswing.<sup>19</sup>

The insufficiency of jobs created by private industry is only in part due to increased productivity and automation. The effect of increasing productivity is shown in Table III. As noted there, manufacturing output almost doubled between 1957 and 1964, but the number of production workers in manufacturing remained the same. Still it is not productivity that creates the problem: it is the fact that production does not keep pace with and overtake the rise in productivity. The failure of the private economy as a job-producer is a failure—despite valiant “pump-priming” efforts—to invest enough capital and grow sufficiently to keep pace with growing productivity and a growing labour force. Nor has government activity shown the ability to cope with a growing labour force and increasing productivity except at the time of World War II.

TABLE III—PRODUCTIVITY OF PRODUCTION WORKERS IN MANUFACTURES

<i>Selected Years</i>	<i>Production Index of Manufactures (1947=100)</i>	<i>Production Workers Employed in Manufactures number (in thousands)</i>	<i>Production Workers Employed index (1947=100)</i>	<i>Output per Productive Worker (1947=100)</i>
1947	100	12,990	100	100
1953	124	14,055	108	115
1957	144	13,189	102	141
1964 (10 month average)	196	12,813	99	198

SOURCE: Production indexes computed from data in *Economic Report of the President* transmitted to Congress, January 1964, and *Economic Indicators*, November 1964, U.S. Government Printing Office. Employment data—*Manpower Report of the President* transmitted to Congress, March 1964, and *Monthly Report on the Labour Force*, October 1964, U.S. Department of Labour.

### *The Disease of Poverty*

The nature of the long economic boom, and its pattern of change, is well reflected in the continuous existence of large-scale poverty. For despite the important reforms introduced by the New Deal in the 1930s, the political acceptance of the “welfare state,” the tremendous advance in productive capacity, and the very sizeable expansion of inner markets, no less than two-fifths of the nation, still live in poverty or in a state of economic deprivation in the U.S.<sup>20</sup>

Naturally the huge growth in the economy also brought about a drastic reduction in poverty. But what needs to be noted in terms of this analysis is the marked slow-down in recent years in the reduction of poverty. It should not be surprising to find that the pattern of change in poverty resembles the pattern of change in capital investment. The great reduction in poverty took place during the World War II era—the years of war and immediate aftermath. From the extreme of the depression

(1935-36) to 1947 there was an average annual reduction of 4.8 per cent in the total number of people living in poverty. From 1947-53—when unemployment was relatively low, capital accumulation still relatively high, and the economy restimulated by the Korean War—the average annual rate of reduction in the number of people living in poverty dropped to 2.7 per cent. And from 1953-60—when unemployment began to mount and the maintenance of prosperity required further artificial stimulation—the rate of annual decline in poverty fell to 1.1 per cent. At the latter rate of change it would take another ninety years to eliminate poverty in the U.S.—this in a country that has right now the resources and the capacity to do so if the society were organized for such a purpose.

The determination of what constitutes poverty in the wealthy U.S. necessarily involves certain arbitrary definitions. A discussion of these definitions would require too much space here. Suffice it to say that though the several studies on this subject made by different authorities in recent years do differ in detail, there is substantial agreement on the extent of poverty. We are using here the study made by the Conference on Economic Progress, *Poverty and Deprivation in the U.S.* (see footnote 20), which used U.S. Department of Labour investigation of budgets of city workers' families to determine the standards of poverty. In addition, the Conference report introduced the concept of "economic deprivation" which includes people living above the stark poverty level but below what the Labour Department investigation found to be a "modest but adequate" worker's family budget.

The simple summary of the Conference report on the 1960 income situation in the U.S. is as follows: 34 million people in families and 4 million unattached individuals (that is, unattached economically to a family unit) lived in poverty; 37 million people in families and 2 million unattached individuals lived in deprivation. The total of 77 million comprised two-fifths of the U.S. population in 1960.

Without dwelling on the sociology of this poverty, one resultant of the persistent poverty is worth reporting on at this point. Faced with the fact that one-half of the draft registrants are rejected as unfit for military service, President Kennedy appointed a task force to study the health and education of U.S. youth. This task force found that one-third of all young men in the nation turning 18 years of age would be found unqualified if they were to be examined for induction into the armed forces. Of these, one-half would be rejected for medical reasons. The remainder would fail through inability to meet the educational standards of at least an eighth-grade level of educational attainment, and a large part of this category could not meet the educational standards of a fifth-grade level.

The President's Task Force concluded on the basis of its study: "Although many persons are disqualified for defects that probably could not be avoided in the present state of knowledge, the majority

appear to be victims of inadequate education and insufficient health services."<sup>21</sup> The Task Force, however, did not point out that they were referring to the young men who were born and brought up during the years of their country's great wave of prosperity and historic economic achievements.

Those who believe that poverty can be eliminated within the economic and social institutions of a capitalist society see the issue of poverty as primarily a matter of social welfare. Better schooling, housing, medical attention, and more government spending to create jobs will, they maintain, break the back of poverty. What is not understood, even by the most energetic reformers, is that poverty is itself a product of prosperity. The economic system, as it operates, creates a reserve of the poor and benefits from it. In periods of rapid expansion and in periods of war, the marginal group in society is available for work and fighting. During such times the reserve of the poor may diminish, to be eventually built up again as the economy slows down, as technological change displaces workers, and when there are economic declines. Moreover, the roots of poverty are intertwined with the very functioning of the economy: the structure of industry, the methods of distribution, and the way prices and profits are formed.

### *The Negro Reserves*

While the majority of the poor are white, the concentration of poverty among Negroes and the unique way they are used in the advanced U.S. civilization offers a valuable laboratory illustration of the operating mechanics of poverty.

Living at the lowest economic levels of the society, the Negroes are available as the ultimate reserve in times of labour shortage. In recent history the most important breakthrough in economic advance of the Negro occurred in World War I and World War II. But as soon as the labour shortage eases, the Negroes' advance slows down or declines. The mechanics of the operation even during prosperous times are presented as one of the conclusions of a recent study: "White workers capture the newly growing fields in which labour resources are scarce, pay levels are good, prospects for advancement are bright, the technology is most advanced, and working conditions the most modern. These fields seem relatively less and less attractive to white workers, however, as the economy continues to expand and newer fields appear. Finally, the once new fields stagnate, and white workers are reluctant to enter them. Even though wages in these fields may increase rapidly, they now are low by the standards of the newer, more highly skilled occupations associated with newer technologies in rapidly expanding fields. At this point Negroes secure these jobs, which are quite attractive in comparison to what had formerly been available to them. Although working conditions and wages in the now older fields may have improved over time, they are conditioned by an older technology and customs.

Moreover, newer technology is likely to result in reduced manpower needs. Thus the Negroes' newest and best opportunities often turn out to be quite vulnerable. Their gains in the operative occupations during the 1940s and 1950s are now increasingly susceptible to recent technological and market changes."<sup>21</sup>

The rôle of the Negro as a shock-absorber of economic and technological dislocations shows up in agriculture as well as industry. The growth of technology on the farm, the upsurge of large industrialized farms associated with war needs and the type of government subsidies, resulted in a sharp decline in the farm population. While this meant, among other things, the removal of large numbers of tenant farmers and farm labourers, the impact fell primarily on the Negroes. Thus, the percentage of white farmers and farm labourers increased from 81 per cent in 1940 to 85 per cent in 1960, while the percentage of Negroes declined in the same period from 19 per cent to 15 per cent.<sup>22</sup>

In like fashion, when unemployment increases, the extent of unemployment among Negroes rises more rapidly than among whites. The official government figures on unemployment indicate a rate of unemployment among Negroes in 1963 of close to 11 per cent as compared with 5 per cent for whites—more than double. The spread itself has been widening as the economy slowed down—the Negro unemployment rate in 1948 was only 63 per cent higher than the white rate. The same applies to unemployment among youth. In 1963 the teenage unemployment was 25.4 per cent for male Negroes and 14 per cent for whites, as compared with 7.1 per cent and 6.3 per cent in 1953.<sup>23</sup> Although employment opportunities increased in 1964, a special government study issued in August 1964 estimated that one-third of the Negro young people, including those who have given up looking for jobs, were without work.

The net result of the two different worlds is seen in Table IV. (The data in the last column are for non-whites, of which over 90 per cent are Negro.) The sharply contrasting patterns are suggestive of the differences between a centre of empire and a colonial dependency. The analogy can be extended in many different directions. The main point is that the elimination of discrimination, even if it be more than token, would be but a minor element in any radical alteration of the income distribution of the Negro population. For it is not discrimination that causes this difference. Institutionalized discrimination contributes to particular forms of poverty among Negroes and enhances the privileges of many whites. But in the main, discrimination is the medium—in the context of U.S. economics and social history—by which a special kind of poverty and a special kind of labour reserve is maintained.

As in the case of white poverty, Negro poverty—more clearly seen because of its extreme character—is a function of the industrial and economic structure. Elimination of discrimination will not eliminate such major sources of poverty as unemployment, casual and inter-

mittent jobs and low-paid occupations. More education, more job training and equal opportunity may only result in having better-educated, better-trained and more "equal" unemployed and low-paid workers. For the sources of poverty result from the behaviour of the market system itself: the structure and location of industry, methods of distribution, the price structure, and the way profits from industry and land ownership are accumulated and used. The economy functions in such a manner that it produces and reproduces poverty and economic deprivation.

The significance of this proposition is not yet well understood even by advanced groups leading the social and political struggle for freedom and equality of Negroes. This lack of understanding is no doubt due in part to the acceptance of the myths about the new capitalism and the consequent faith in what a good and wise government could accomplish.

TABLE IV—1963 INCOME DISTRIBUTION OF WHITES AND NON-WHITES

<i>Annual Money Income</i>	<i>Percentage of Families</i>	
	<i>White</i>	<i>Non-white</i>
	<i>%</i>	<i>%</i>
Under \$2,000	9.0	25.5
\$2,000 to \$3,999	15.1	31.1
\$4,000 to \$5,999	20.1	19.6
\$6,000 to \$9,999	34.3	18.1
\$10,000 and over	21.5	5.7
	100.0	100.0

NOTE: These data represent only money income and do not include non-monetary income such as consumption of food raised on one's farm or the value of room and board supplied to farm and service workers.

SOURCE: *Consumer Income*, Consumer Population Report, Series P-60, No. 43, 20 September 1964. U.S. Department of Commerce.

A more careful examination of Table IV may help to see this question in better perspective. A casual inspection of the two columns shows that from a purely statistical point of view, equality between the two groups could be achieved only if a large number of whites would be pushed down the economic ladder in order to make room for non-whites. While a society based on social justice might make a significant advance along this line, it is clear that very little, if any, progress can be made towards such an end in a society that rewards its citizens according to property ownership and work skills (where education and long training are of key importance).

Let us assume for the sake of this argument a society that is bent on reform, but reform in a practical fashion. The present distribution of incomes of whites will not be disturbed. This necessarily means that the distribution of income of the close to 5 million Negro families will not

be changed. But as the economy grows and the number of Negro families increases (say, at 2 per cent per year), special privileges will be given Negroes so that they get an advantage over whites for the better jobs. Hence, we will assume that new jobs and new income opportunities for Negroes will be such that 24 per cent of them will result in incomes of \$10,000 a year and over, instead of the 5.7 per cent shown in Table IV. Only a little over 6 per cent of the new jobs will result in annual income of less than \$2,000, as compared with the 25.5 per cent shown in Table IV. Similar drastic changes will be effected, in our assumed world, for the in-between job opportunities. The net result of all these assumptions is that it would still take a hundred years for the income distribution of Negroes to equal that of the whites.

Of course, we have merely been playing a mathematical game in the preceding paragraph in order to illuminate the severity of the problem. The historical facts are quite clear. The same Census Bureau study which produced the data shown in Table IV also presented comparative income information for the entire post-war period. An examination of these data reveals that despite the turmoil of recent years and the talk of progress, the relative position of Negro income compared to white income has not changed. In 1948 the median income of non-white families was 53 per cent of the median income of white families. In 1963 the percentage was still 53 per cent. Any significant break-through in this kind of inequality and the achievement of results in the new future, and not a hundred years from now, places on the agenda the need for a new type of industrialization and a reconstruction of the physical wealth of the society. Such changes would be in direct conflict with the operations of a private market economy that creates and continuously refreshes the sources of poverty. If the goal of the society is Negro-white equality and the elimination of poverty, then the solution cannot be found in a new capitalism or through the adaptation of the Negro to the new capitalism. If the history of colonialism and the development of national independence can serve as a teacher, then we need to recognize that to achieve equality the Negro must become equal by becoming the master of his own destiny. Seen in the light of issues of this magnitude, the various proposals for even radical tinkering with the existing economic set-up are akin to the romantic and utopian socialist ideas of an earlier era.

#### NOTES

1. The government data on unemployment show 4 million unemployed during the first half of 1964. But these are only the full-time unemployed. If one takes into account the part-time unemployed, that is, those working involuntarily part-time, the full measure of unemployment reaches 5.4 million. Added to this are 1.4 million concealed unemployed, resulting in an estimate of 6.4 million unemployed (See *The Toll of Rising Interest Rates*, Conference on Economic Progress, Washington, D.C., August 1964.) The concept of "concealed unemployment" is

used because the government measures as unemployed only those able to work and seeking work. Those who due to the lack of jobs do not actively seek jobs are thus excluded from the labour force. Thus, in the official labour force data for 1963, 98 per cent of white men, ages 35 to 44, are counted in the civilian labour force, but only 95 per cent of Negro men in these age groups are included. In the 45 to 54 age group, the comparable percentages are 96 per cent and 91 per cent; in the 55 to 64 age group, 87 per cent and 83 per cent. (See *Manpower Report of the President*, U.S. Government Printing Office, Washington, D.C., March 1964.)

The estimate of 7.4 million employed directly and indirectly due to military spending is made by the U.S. Arms Control and Disarmament Agency in *Economic Impacts of Disarmament*, Washington, D.C., 1962.

2. The estimate of the multiplier effect of military spending was given in the report of the U.S. Arms Control and Disarmament Agency referred to in footnote 1. The translation of the multiplier from dollar terms to employment was made by using the ratio of gross private product (gross national product less government expenditures for employment) to non-government employment.
3. "Interindustry Structure of the United States, a Report on the 1958 Input-Output Study" in *Survey of Current Business*, November 1964.
4. In 1958, for example, federal government spending accounted for the following percentages of total demand in metal mining and manufacture: iron and ferro-alloy mining, 12.8 per cent; non-ferrous metal ores mining, 35.6 per cent; primary iron and steel manufacturing, 12.5 per cent; primary non-ferrous metal manufacturing, 22.3 per cent. Source same as in footnote 3.
5. Percentages calculated from data in *Economic Report of the President*, U.S. Government Printing Office, Washington, D.C., 1964. The 1964 data were obtained from *Economic Indicators*, November 1964, U.S. Government Printing Office.
6. *Economic Indicators*, November 1964.
7. Source same as footnote 3.
8. Testimony of Dr. John Blair before Senate Subcommittee on Antitrust and Monopoly, November 1964.
9. The data for 1947-60 appear in *Balance of Payments, Statistical Supplement*, revised edition, U.S. Government Printing Office, Washington, D.C., 1963. Data for years after 1960 from different issues of *Survey of Current Business*.
10. In 1958, exports accounted for the following percentages of total demand: construction, mining and oil field machinery, 26.9 per cent; metalworking machinery and equipment, 14 per cent; engines and turbines, 14.8 per cent; general industrial machinery and equipment, 13.4 per cent. Note that exports and military procurement accounted for between 33 and 46 per cent of the total demand in the following industries: engines and turbines; construction, mining and oil field machinery; metalworking machinery and equipment; machine shop products; radio, TV and communication equipment; electronic components and accessories; scientific and control instruments. Source same as footnote 3.
11. Source same as footnote 9.
12. *Economic Report of the President*, 1964.
13. *ibid.*
14. *ibid.*
15. "The New Dimension in Mortgage Debt," Technical Paper No. 15, National Industrial Conference Board, New York, 1964.
16. *Economic Report of the President*, 1964. Not all of consumer instalment credit is used for the purchase of consumer durable goods. About two-thirds of instalment credit is backed specifically by paper on consumer durable goods. However, a substantial portion of the remaining credit is also used for the purchase of consumer durables as is part of the non-instalment credit which was not included in the above figures.

17. *Wall Street Journal*, 17 June 1964.
18. This calculation assumes no reduction in the size of the armed forces. The unemployment figures were adjusted to take into account part-time unemployment, but not the concealed unemployed.
19. The 1964 data classified in this fashion were not available at the time of this writing. Preliminary data indicate that employment on the private market account improved in 1964, but hardly enough to alter the main argument. If 1962 were taken as the terminal year, employment on private market account would show an absolute decline from 1957.
20. This statement and the subsequent details on poverty are from *Poverty and Deprivation in the U.S.*, Conference on Economic Progress, Washington, D.C., April 1962. The national committee of the conference includes industrialists and leaders of national trade unions and farm organizations. The research and analysis of the conference is under the direction of Leon H. Keyserling, former chairman of the President's Council of Economic Advisers.
21. Dale L. Hiestand, *Economic Growth and Employment Opportunities for Minorities*, p. 114 (New York and London, 1964).
22. Calculated from data in Hiestand, cited in footnote 21.
23. *Manpower Report of the President*, U.S. Government Printing Office, Washington, D.C., March 1964.

