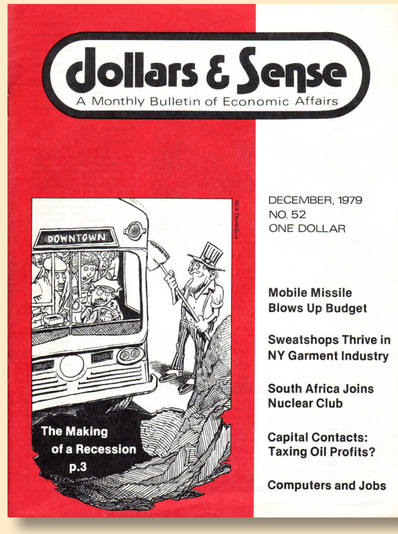
FROM 1979:

A Funny Thing Happened on the Way to Recession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Mobile Missile Blows Up Budget

Sweatshops Thrive in NY Garment Industry

South Africa Joins Nuclear Club

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The Making of a Recession p.3

From the December 1979 issue.

A friend once told us that when he first took economics courses, he thought the constant discussion of "the Fed" referred to people who had enough to eat. He kept waiting to hear about "the Unfed." If he had been starting economics this semester, he could easily have gone on to conclude that the Fed's goal is to increase the ranks of the Unfed.

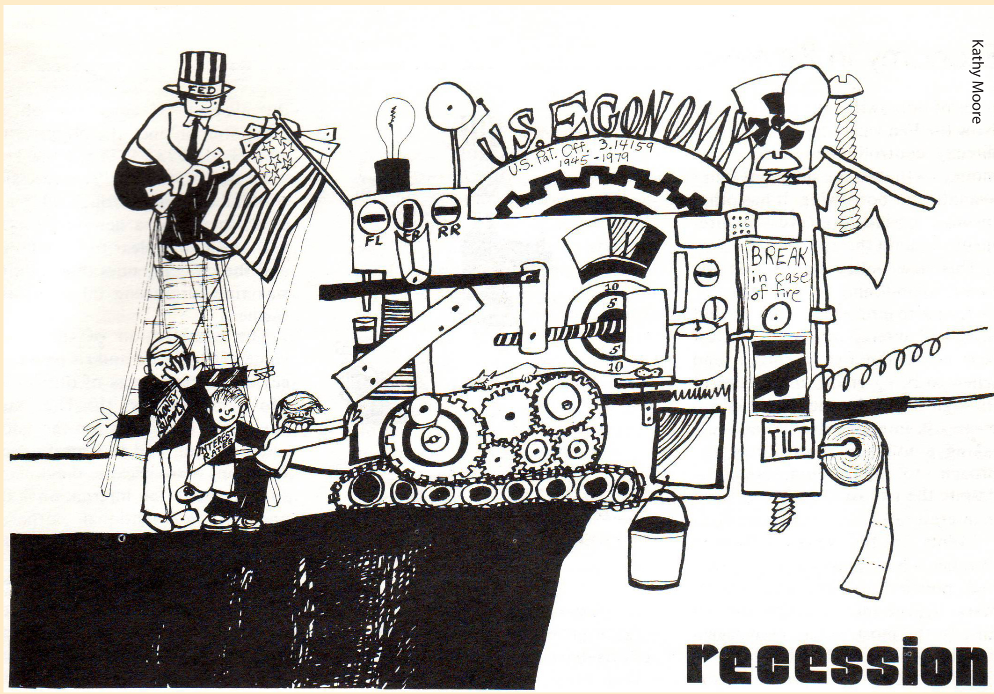
"The Fed" is the oft-used abbreviated name for the Federal Reserve System, which has the job of controlling the nation's money supply and interest rates. On October 6 [1979], the Fed announced [major changes] in its policies, changes which are likely to push the economy into a recession. The Fed's action is the latest and strongest step in the government's continuing effort to engineer a downturn.

Recession is Washington's answer to inflation. Throw enough people out of work, and there will be a lot less consumer spending. Eventually, businesses will not be able to raise their prices as rapidly and still make sales. Moreover, it's easier for employers to stonewall against workers' demands for higher wages when millions of unemployed are competing for the jobs. With a long enough recession, a decline in inflation is guaranteed—though with each passing recession the process seems to take longer and be more painful.

Recession relieves international troubles of the United States, too; not only by reducing U.S. inflation, but also by reducing purchases of imports, including oil. When people are out of work and business are cutting back, no one buys much from abroad—and if you're trying to boost the value of the dollar, that's what you want.

Curtailing the money supply and pushing up interest rates will limit businesses' growth by making it harder and more expensive for them to borrow, and by cutting back consumers' ability to buy on credit.

U.S. capitalism has brought itself to an unpleasant impasse. If the government does not force the economy into recession now, the slump may come with much greater force a little later. If the inflation is not curtailed and the related international problems become serious, the situation could get entirely out of hand. International financial crisis, unpredictable political conflict at home, and even a general crash are all possible. The [Carter] Administration and business would much prefer an earlier and possibly more manageable recession to a later and probably more dangerous one.



Kathy Moore

[E]vents have not been kind to Jimmy Carter. Presiding over a paralyzed system, he has become the personal symbol of that paralysis. Having failed to make the economy behave as he wished, he may now have to give precedence to rescuing the dollar and slowing inflation, and give up the benefits of an election-year boom. Perhaps a new public relations firm could redesign Carter as "the President who saved us from ruinous inflation"—but only if he can do it next year without causing a full-scale depression.

More likely, Jimmy Carter will go the way of Gerald what's-his-name four years earlier, defeated in part by the economic mess the country is in. But at least Carter can find a grim satisfaction in knowing that the job will be no easier for his successor. D&S