

SAMUELSON

On the Western Economy

Q. Dr. Samuelson, I'd like to start by discussing a subject which obviously troubles many people in the world—Americans and non-Americans—and that is, are we headed into a depression? Is the worldwide recession accompanied by inflation going to keep on spiralling downward into a depression?

A. Well, my answer is no, if you mean by your question, are we heading into a Great Depression like that of the 1930's? If you lived through that Great Depression, you would remember that in a country like the United States we began with 26,000 banks, and 10,000 of those failed. Well, now, that isn't going to happen again. During the Great Depression in the United States and in Germany, one out of four people were out of work. For the whole decade of the 1930's in the United States, our unemployment rate was 18 percent. We're talking now, in America, about a little over eight percent—maybe it's going to go to nine percent, maybe it will be 10 percent.

Q. Lets look at it from another point of view. Given the weight of the U.S. economy in the world. To what extent does, what we do here in the United States, influence other economies throughout the world?

A. Well, the United States was the first to become affluent, and we are a great continental nation, so, obviously, we are one of the most sizeable economies in the world—the most sizeable. But, you know, people are subject to historical lag. Now, we're only six percent of the world's people, and we have 26 percent of the world's GNP, so we still are a very affluent country. But if the world is lucky and if the whole situation is run right, we will slip from 26 percent to 20 percent in the next decade. I don't think that's something to be concerned about. As a citizen of the world, I rejoice in that. What it means is that the other parts of the world—most notably Western Europe, other parts of North America and Australia—have been coming up towards our affluence. They aren't yet, for the most part, quite there.

Paul Samuelson the well known American economist discusses below in an interview with the United States Information Service, the state of the Western economies. Professor Samuelson is the author of the widely used U.S. text book "Economics".

I only wish I could say that the developing nations were also gaining on us in real living standards as much as Western Europe has been. Now, there it's very fashionable to talk—you hear it all the time—about the increasing divergence between the developing nations and the most developed nations. And no one who knows the facts will wish to soft-pedal the tremendous discrepancies. But you know I was surprised when I came to prepare the ninth edition of my textbook—three years had passed since the eighth edition—so I and my research assistant began to get from the World Bank the new facts on the developing nations, and I said, "Now we're going to make a drawing that's going to show the widening gap": We made the drawing, but the gap really was not wide; it was about constant, and even in some recent years, it was narrowing a bit. Until the recent very bad rash of harvests, which have taken place in the United States.....in the Mississippi River valley, in China, in Russia several years in a row, and in Australia—I made a trip a couple of years ago through the whole Pacific Basin, and there was drought then, in Indonesia and Australia—until then, there was some evidence that this widening gap was not closing but was beginning to cease to widen.

Q. So, from what you say, the U.S. economy, although still the largest in the world, no longer shakes the world in quite the way it did. And yet, when West German Chancellor Helmut Schmidt was on a unit to the United States, he warned President Ford that the United States should begin to stimulate its economy lest it export recession to those nations like his own, which were so dependent upon exports to the United States.

A. Right. Well, I want to emphasize that it is in our own interests not to let this most serious recession of the post-World War II period degenerate into a mini-depression or into something worse. And it is also to the interests of those

countries which export to us, for whom we provide a very good market, that it should not be the case. Nevertheless, I think that Chancellor Schmidt's remark illustrates this cultural lag. People used to think that if we had a little sneeze, they got pneumonia. And maybe it was more true 25 years ago than it is today. We went through recessions in the 1950's and the 1960's on a different pattern from Western Europe and some other parts of the world, and they discovered to their surprise that in this age after Keynes, to a new degree they are masters of their own destiny.

Now, having said that, I must tell you that when I first started to study economics, before World War II, there was one business cycle. We all marched up the hill and boomed together; we all fell down the slide of recession or depression together. And I was feeling very happy in the postwar period, that we were breaking away from that pattern. Sad to relate, however, from about the early 1970's, we have all in the world seemed to go back into that pattern. And a little less than two years ago when I travelled all through the Pacific Basin, I found everywhere the boom just like the United States. And, then, if you were to make that same trip today and in Europe, you would find that everywhere there is the same combination of stagnation and inflation "stagflation", as we call it. So, I must confess that I am sorry to see us slipping back into the old way.

I think that we can take comfort in the fact that we no longer submit to the old business cycle. In rugged individualistic days of pure, undiluted capitalism, if supply and demand said a country is to go into a depression, then everybody tightened his belt and you did that. Now, we have built-in stabilizers. We have unemployment compensation we have extended unemployment compensation. We are beginning to see the move towards re-stimulating the economy by expansionary fiscal policy. The result is we can look them (Japanese and European exporters) squarely in the eye and say that our market does not collapse the way it used to collapse in 1929 and 1933 or even the way it used to collapse in 1937-38.

