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Mr. Martin

This is the Gekker translation you wanted.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 21, 1965

To Chairman Martin

From Paul Gekker PG

Subject: Soviet Publication of Columbia University Speech.

You may wish to note that the Russians have translated and published a major portion of the address you delivered at Columbia University on June 1. The Russian translation, which is a generally faithful rendition of your text, appears in the August 1965 issues of World Economics and International Relations, the monthly journal of the Institute of World Economics and International Relations of the U.S.S.R. Academy of Sciences.

The Russians have given your address a new title--"Is the U.S.A. Threatened by Another Great Depression?"--in place of the one you had originally chosen ("Does Monetary History Repeat Itself?"). In addition, they have made two major deletions from your text: they have omitted your discussion of the 1931 sterling devaluation, and of the gold standard mechanism. The sole addition to the text, as reproduced, consists of an editorial instruction to the reader to interpret your expression "the free world" as the "capitalistic" world.

In addition to this shortened version of your Columbia University address, the Soviet journal also published a two-page commentary entitled "In Regard to Martin's Speech," by Sergei Menshikov, a member of the Institute of World Economics and International Relations. The author happens to be the son of Mikhail Menshikov, the Soviet Ambassador in Washington during most of the Khrushchev period and the immediate predecessor of Dobrynin, the present Ambassador. Sergei Menshikov has a background in journalism; during his stay in this country, when his father was Ambassador, he became quite widely acquainted here as well as fairly well informed about American conditions. He thus enjoys something of a reputation as an expert on the United States and frequently contributes articles on various aspects of the contemporary U.S. scene. As a matter of interest, I attach my informal translation of Menshikov's commentary.

In my view, Menshikov's piece is more interesting as a curiosity than as an expression of opinion that merits serious attention. The commentary is a typical example of Soviet propaganda treatment of important foreign developments, especially of situations in which Soviet observers fancy they detect some element of controversy or of internal contradiction in the West. The piece is standard, too, in that it is a vehicle for the repetition of fairly well-worn themes, in this instance of what one might term the "neo-Soviet" analysis of the capitalist business cycle. As one would expect, Menshikov's piece is disputatious, but it is not overly so. Finally, Menshikov's status as an expert on the United States is displayed in his ability to identify the "eminent observers" you mention in your address. This personal touch in his commentary may convey just that ring of authenticity that appeals to Menshikov's readers, whoever they are.

"In Regard to Martin's Speech"

by S. Menshikov*

William McChesney Martin is no rank-and-file figure in the ruling circles of the United States of America. He has already occupied his position, which corresponds in other countries to the head of the central bank of issue, for 14 years. During this time there have been three Presidents in the United States but Martin remains at the head of the Federal Reserve System--among senior Washington officials, a rare example of length of service. This long service is evidently to be explained by the fact that Martin follows the line of the leading Wall Street banks fairly closely, even engaging from time to time in controversy with other parts of the government, among them the Treasury Department. Martin is well known in Wall Street, having been president of the New York Stock Exchange in 1938-41. All this explains why Martin's speech, which we are printing in our journal, exerted such widespread effects, especially on the stock exchange.

One cannot deny that the views expressed in the speech convey a certain sense of realism. Martin admits that the current economic situation is reminiscent of the situation prevailing on the eve of the great depression of 1929-33. He satirizes the official optimism of some bourgeois economists who are now--as they were then--quick to declare that capitalism has arrived at the stage of crisis-free development. Martin doesn't identify these people but it is easy to recognize them among his

* Translated from <u>World Economics and International Relations</u>, 1965, No. 8, pp. 137-138.

colleagues--members of President Johnson's Council of Economic Advisers, who only this year declared that recessions were almost entirely conquered or, at any rate, would be conquered in the near future.

Nor is it difficult to recognize those "eminent observers," unnamed but described by Martin as making comparisons between the present and the late 1920's. Among them is the London weekly Economist, which aired views along these lines in an editorial this March; the French economist Jacques Rueff, whose ideas have been used by de Gaulle in his well-publicized statements on exchange questions; and a number of others.

It is a particular feature of Martin's speech that he makes his comparisons between the present situation and that of the late 1920's in a fairly wide context. To a certain extent, this comparison is correct, with respect to general characteristics as well as to the contrasts between the two periods. However, it is in many respects a far from satisfactory account.

Martin is mistaken in asserting that the last seven years have witnessed uninterrupted growth in the capitalist economies. It is sufficient, in this regard, to recall the American recession of 1960-61--a period of prolonged stagnation--as well as the partial and short-term recessions in a number of Western European countries and in Japan in 1962-63. His statements are also incidentally incorrect with respect to the periods between the depressions of 1920-21 and of 1929-33, when the growth in production was interrupted by recessions in 1924 and 1927.

It is necessary to be more precise on these matters in order to be able to provide a more correct answer to the question posed in the title of Martin's speech.[1/] Cyclical growth in capitalist economies has not been uninterrupted, no more now than it was in the 1920's. But it is certainly the case now, just as it was then, that about seven years have passed since the previous worldwide business cycle. Inasmuch as cycles of capitalist production have recurred every 7-10 years in the course of roughly the last century and a half, it is clear that the time has come to look for signs of a cyclical turning point.

Among capitalist economies there are at present many indications that the current period of cyclical growth is coming to an end. Last year's recession in Italy, the stagnation and tendency toward recession in France, the curtailment of output in Japan since the beginning of this year, and in England from the end of last year as well, the onset of a stock exchange decline in the United States--these and other circumstances suggest that the period of "perpetual boom" is already behind us.

Martin deals mainly in terms of credit, foreign exchange and finance, and he distinguishes between factors that can be used to support the argument that there will be a repetition of a crisis of overproduction on a large scale, and those that operate in the reverse direction. But an answer to the question whether the 1929-33 depression will be repeated cannot be given solely in terms of an analysis of monetary and credit trends. In this respect, Martin illustrates the usual tendency of bourgeois economists to exaggerate the role of money. The causes of economic depressions are to be found primarily in the sphere of production. The

1/ Original title of the address was "Does Monetary History Repeat Itself?"

analysis of the particular situation in the field of production, in any given period, permits one to judge the sharpness of the coming depression. The study of monetary and credit developments can only be a supplement to this basic analysis.

In the contemporary capitalist economy, the strength and magnitude of cyclical movements can hardly be the same as in 1929-33, at least at the present time. The capitalist share of world production has declined significantly and now accounts for hardly more than 60 per cent of the total. In addition, commodity exchanges with the socialist planned economies cannot help but influence the course of the business cycle. In developing countries, industrialization proceeds apace, in large measure with government support. This creates a relatively stable demand for industrial equipment manufactured in the industrially advanced countries.

In the principal capitalist countries the scientific-technological revolution is continuing and, despite the contradictions inherent in capitalist modes of production, this process is rapidly altering the structure of production by creating all sorts of progressive branches of industry and types of products, the output of which continues growing even during periods when the traditional sectors of industry are experiencing depressed conditions.

The workers' movement in the principal capitalist countries has registered significant successes. Among the gains is the more or less systematic increase in pay scales, which continues even during periods of depression, the systems of unemployment compensation, and so forth.

Government-monopolistic capitalism has developed economic programming on a national scale. The use of electronic calculators in management and intra-firm planning by the largest capitalist monopolies permit greater precision in estimating future demand and operationally more exact adjustments to the cyclical situation.

In short, capitalism has not eliminated--nor can it eliminate--worldwide cyclical crises; but its economic mechanism has changed to such an extent that developments within the cycle are now quite different. A world depression can be serious, it can be prolonged, and it can be deep, if simultaneously and suddenly there occur a sharp reduction in trade between capitalist and socialist countries, a temporary curtailment of industrialization in developing countries, and a temporary stop to the growth of progressive industrial branches of industry in the developed capitalist countries; if the growth in wage rates, under collective agreements, is replaced by a decline; and if capitalist governments and the largest monopolies make large programming errors. However, the combination of all these conditions, and their concentration within a relatively brief period, is rather unlikely.

But let us return to the area of money and credit, which can play a significant role in determining the magnitude and strength of the economic cycle. At the present time, the foreign exchange position is undoubtedly among the weaker elements in the cyclical picture. Martin is correct in saying that the capitalist world economy no longer suffers from the "cancer" of reparations and international debts, which strangled capitalist international trade and the export of capital in 1929-34. However, there is now a different "cancer"--the extremely uncertain balance of payments position of the United States and England, which account for more than one-half of industrial production and for almost one-third of total exports of the capitalist countries. Inasmuch as the dollar and the pound sterling are the main reserve currencies of the capitalist world, it is easy to imagine how a crash or a shock to confidence in these currencies could significantly intensify the crisis of overproduction. Even the efforts by the United States and Britain exert negative influences on the general course of economic activity in the capitalist world.

The imposition of import surcharges by Britain has already caused sales difficulties for the smaller countries in the Outer Seven. But the most influential country is the United States, whose commodity imports in recent years has been a main prime-mover of growth in Western Europe and Japan, and whose export of capital is an essential source of investment finance in these countries.

President Johnson's announced program to restrain capital outflow has already had adverse effects on capital markets of other countries. If the United States should move to curtail imports the consequences could be quite serious.

Which will prevail--extreme nationalism in trade or commercial policy, or joint action by the imperialist countries to rescue the major capitalist currencies? Martin raises this question in the concluding section of his speech. He urges that the second of these lines of action be taken, because he recognizes that efforts to overcome the crisis of the dollar at the expense of other countries would have ricochet effects on the American economy.

But Martin's reproach of those people who measure others only by their own standard applies just as much to Martin himself. For the underlying theme of his entire speech is to present arguments against an increase in the price of gold, against any change in the current role of the dollar in international accounts, that is to say against the point of view expressed by de Gaulle and actually held by certain other Western European governments.

The whole point of Martin's speech is that it is an appeal to safeguard the hegemony of the U.S. dollar, come what may. It is precisely in this respect that Martin displays very much the same economically nationalistic outlook that he condemns in others. If Martin's speech presages further steps by American imperialism to shift the burden of the dollar crisis onto the shoulders of others, this will strengthen those very tendencies toward an intensification of the economic crisis, of which the Chairman of the Board of Governors of the Federal Reserve System warns.

Translated by:
Paul Gekker
September 20, 1965