The Inflation versus Deflation Hoax

As leading organ for the "recession now" faction, the *Wall Street Journal* opened fire on Federal Reserve Chairman G. William Miller in its lead editorial July 17, "The Big Inflation Fight," charging that Miller is not doing enough to counter inflation. To drive its point home, the *Journal* selected figures that gave a greatly exaggerated impression of present rates of monetary growth. For the latest eight-week period (ending July 5) the M1 and M2 official measures of money supply were growing at a 6.4 and 8 percent annual rate respectively — not the great surge implied by the Friedmanites at the *Journal*. The *Journal* cited the growth rate of the so-called monetary base in the four weeks ending July 5. This figure was distorted by beginning-of-quarter factors, and the monetary base itself is a category ignored by everyone but arch-Friedmanites.

Indeed, Miller did vote against the latest increase in the discount rate — under immense pressure from the pro-business faction in the Administration grouped around Special Trade Negotiator Robert Strauss. However, the Fed's Federal Open Market Committee voted to raise the Federal Funds rate another notch to 8 percent at its monthly meeting July 18, most money market economists have concluded. Numerous observers, such as former Council of Economic Advisers chief Alan Greenspan, expect the prime rate to keep ascending well into 1979.

If the *Wall Street Journal's* prescriptions for controlling inflation by cutting money supply growth are heeded, there is no question that the U.S. economy will be plunged into recession sooner rather than later. A slowdown in the increase in inflated dollar business sales in May together with other indications that consumers are becoming reluctant to take on more new debt are signals that the "consumer-based recovery" has outlived itself. And businesses are adjusting their inventories accordingly. In mid-July the Commerce Department reported that businesses had increased their inventories by only a weak 0.8 percent in May. The increase in volume of new construction contracts has already spent itself for the year, according to the F. W. Dodge division of McGraw Hill. Most of the projected 1978 gain has already occurred and the volume of construction contracts is expected to decline in the second half of the year.

Under these conditions, an indiscriminate tightening of credit and cut-back in government spending, federal and local, will *ensure* a deep recession.

Britain versus Japan

The main point that is being obfuscated by the orchestrated debate between the inflationists and the deflationists — Brookings versus the AEI — is that the whole debate is phony. There is nothing inherently inflationary about credit expansion and government spending, if it is appropriately directed.

If geared toward the production of tangible goods and investment in new plant and equipment and technology, credit creation and government spending are deflationary. This is the Japanese model, based on the ideas of Alexander Hamilton and the American Whig economist Henry Carey. Its opposite is credit creation to finance acquisitions taking place in lieu of new capital spending, commodity speculation, debt rollovers, and the like — the Anglo-Dutch model. And that sort of credit creation is indeed inflationary.

The events around the Bonn summit make the point. U.S. businessmen who are falling for the Adam Smith revival ought to consider why it is that the Japanese and West Germans , who have continued to resist Brookings-type relation of their economies, are now planning to mobilize the hundreds of billions dollar overhang as development credits in what will be the greatest expansion of credit in history.

—*Lydia Dittler*

On Friedmanite and Bukharinite Snakes

Warren Hamerman, the U.S. Labor Party's Organizational Secretary, delivered a major address to the USLP National Convention July 1 in which he defined a species called "Bukharinite snakes." These creatures, Hamerman told the convention, are part of a British-inspired international network of anti-capital-investment "economists," some comporting themselves as "fiscal conservatives," others as "communists," but all bitterly opposed to progress.

Here are highlights from Hamerman's remarks:

...The oligarchic elites are fighting a world strategic battle in which they are deployed to prevent an alternative to the International Monetary Fund and World Bank in the world economy, or they're finished. That's what every one of their snakes in the United States, in the East, and in the developing sector is deployed to do. And these snakes, as we know, are highly imperfect instruments; they rely on the weakness of will among development-oriented forces at the critical moment.

Policymaking layers, nations, get bamboozled by the most obvious snake operations.

For example, do you know what the biggest opponent operation to the Grand Design in the Soviet Union has been in this century? It's "fiscal conservatism."

Milton Friedman's teacher and Bukharin (an early leader of the Bolshevik Party —ed.) sat in the same classroom at the University of Vienna in 1911-17....The Royal Dutch Shell-Hapsburg nexus in Vienna destroyed centuries of human culture. What has Vienna given us? Linguistics, logical positivism, atonal music, Heisenbergian economics, systems analysis, terrorism, and the Frankfurt School. It also gave us Milton Friedman, Arthur Burns, and Bukharin—literally.

Bukharin's books from 1911-14 described his experiences of going to classes, studying with Bohm-Bawerk, von Wieser, and this measles disease, von Mies. Trotsky had a few classes in Vienna too, and then came to New York with Bukharin.

What are Bukharin's writings aimed against?

Hamiltonian economics. His argument in these works, the ones he published while he was in the graduate school in Vienna, developed the following thesis: What's wrong with capitalism is that it creates a central capitalist state, which is like a super trust, which exploits the workers, robs their surplus, reinvests it into research and development, and gives it to the fat-cat industries, the industrial big-capital guys. Therefore, *a true Bukharinite program is opposed to "over-investment, planning, and centralization."* A true Bukharinite economic approach favors market equilibrium, not growth.

What was Bukharin's program? (1) Cut taxes. (2) Implement a two-tier credit policy—which penalizes industrialization, prevents capital-intensive agriculture, and favors labor-intensive and handicraft industries. This is what Rosa Luxemburg was battling. Bukharin writes that accumulation should not be through economic growth; rather, the way you accumulate is through commercial circulation and market changes. At all cost, he said, prevent the concentration of capital and industry from developing where it's not now. Like all graduates of Vienna, Bukharin quotes "liberally" from Aristotle, Bacon, Locke, Smith, and Mill.

What was Bukharin's role in the 1920s? Fighting against Rapallo (the USSR's 1922 economic pact with Germany), fighting for a zero-growth, anti-industrial development package, a Schachtian economic package, over which World War II was fought and not quite resolved yet.

What about Friedman? Friedman's teacher, Hayek, in the same World War I period was in the same classes at the University of Vienna. Then he went to the London School of Economics. From there he went to the University of Chicago where he joined up with John Dewey, Thorstein Veblen, and Robert Hutchins. Some of his people came to New York and, in the 1930s, gave scholarships to two bright economics graduate students at Columbia, and brought them to the University of Chicago to study with the Fabian transplants.

What were their names? Arthur Burns and Milton Friedman. Bukharinites!...

It's the Friedmanites in the Soviet Union who are Brezhnev's problem. And it's the Bukharinites here who are our problem, and the Trotskyites, and so forth. There are other variants of the disease. People here know their zoology.

Keynes is a part of this Vienna circle. There goes every postwar economic history textbook assumption of the major debate between the Keynesians and the Friedmanites, and the Bukharinites. This is one operation.

The question is this: In the postwar period, in 1945, forty nations in the world were members of the IMF. Today, 160 nations are members of the IMF. How can they be nations, sovereign nations, unless they are organized around the notions of Hamiltonian economics, the founding principles, the humanist purpose of America, the notion of Platonic reason? How can you have economic development? You can have projects: one project here, another project there. But only a total, global approach, which puts aside the IMF and World Bank, and goes for a new institution through which industrial-technological transfer to the developing sector, East-West trade, a central economic planning institution to achieve your primary parameter requirements of accelerating rates of development of skilled labor on a world scale can guarantee national sovereignty...

An Anglo-Dutch Banking Crisis

British and Dutch banking institutions are desperately trying to ward off a liquidity crunch in the wake of the Bremen and Bonn summits' opposition to the highly speculative, highly-leveraged commitments of the Anglo-Dutch banks.

BANKING

On Monday, July 17 the Bank of England was forced to undertake emergency measures to prevent a liquidity crisis in England following the rise of call-money rates to 25 percent. A front-page bulletin in the following day's London *Financial Times* warned of "severe shortages of funds expected in the money markets over the next few weeks." To relieve this pressure, the Bank of England announced that banks would "be allowed to keep, for another seven weeks, some £440 of funds which were due to be paid to the Bank as special deposits next Monday" — an effective short-term injection of that amount of liquidity. Despite this palliative move, wire services on the evening of July 19 reported that call-money (overnight lending funds) attained rates as high as 25-34 percent that day, as institutions in Britain sought to cover their liabilities. As the *Financial Times* itself conceded, the Bank of England was concerned about "a potential squeeze on the reserve asset position of the banks. The market has already been experiencing a severe shortage of money . . . . The shortages are expected to persist for the next few weeks . . . and could cause unnecessary fluctuations in short-term interest rates."

What remains to be seen is whether the technical factors cited by the *Financial Times* — heavy sales of gilt-edged stocks and unusual government funding flows — suffice to account for the extraordinary liquidity shortage. Notorious for over a year, the Hambros merchant bank has been in difficulty due to its heavy position in shipping investments that have turned sour. The latest blow to Hambros came as the Norwegian Guaranty Board refused to underwrite any further of the