

COMBATING INFLATIONARY RECESSIONS

The Failure of Traditional Economics

The public is, once again, being deluged with a mass of conflicting proposals for solution of the nation's economic ills.

From the Presidency one hears plans for tax cuts, oil tariffs, more federal deficits and public works projects.

From Capitol Hill, the Democratic Party leaders call for greater tax cuts for the poor, oil rationing, even larger deficits, and stiff wage and price controls.

Above the roar of the debate over which set of authoritarian controls to adopt, comes the realization that both sides fail to deal with economic realities. A proper analysis reveals that both sides fail to present satisfactory solutions to the twin problems of price inflation and recession.

The failure of traditional politicians to understand the problem of inflationary recession, let alone be able to present solutions to it, should not be surprising. It does not require a degree in economics and a vast background in political science to understand that the present generation of politicians (who have to accept responsibility for the actions which have created inflationary recessions) are not likely to publicly acknowledge their own guilt. Neither can one expect leadership from most economists, who were taught that inflation and unemployment were opposite and mutually exclusive results of public policy (i.e., they could never occur together), to grasp the economic truths of the modern age.

Fortunately, an increasing number of Americans are rejecting both the old politics of power and the old economics of control, and are searching for a new analysis based upon individual liberty and accurate economic principles. The purpose of this article is to present a concrete solution to inflationary recessions to these thinking Americans.

Causes of Inflationary Recession

The outdated economics of Keynes, Galbraith and Samuelson taught that economic life was analogous to driving an automobile. In order to stay on the road, government (the driver) had to be at the steering wheel. If the economy (the car) wandered towards one side (unemployment) government would pull the wheel in the other direction (towards inflation), and if the car moved toward inflation, government would turn the wheel in the other direction,

toward unemployment. What the Keynesian driver's manual never told the planners was that one day the combined effects of years of government "driving" would lead us to a deadend—inflationary recession.

Price inflation is a result of excessive money being pumped into the economy relative to the amount of goods produced. The two variables being money supply and goods supply, it is easy to see how government has increased the money supply (through Federal Reserve Board policy, deficit spending, pump priming) and decreased available goods (through anti-business legislation, corporate tax policy, and coercive labor union legislation) *at the same time*.

Recession, on the other hand, results from a loss of demand for certain goods and services with accompanying slowdown and unemployment. At the present time, government-created high interest rates (due to deficit spending which drains more than 40% of loanable funds away from the productive sectors and old-style inflation fighting by the Federal Reserve) have brought stagnation to the capital goods and housing industries. It should also be noted that part of any recession is due to the collapse of unsound investments made during the easy money policy of past years.

In a free market, periods of unemployment are self-correcting and deflationary as a rise in unemployment bids down prices and wages. However, the past 40 years have seen the creation of an American economy which not only is *not* self-correcting, but, far worse, is self-aggravating.

Today, unemployment of a worker results in a unit loss of productivity and output without a unit loss of purchasing power (i.e., a drop in GNP with a corresponding drop in aggregate demand), hence inflationary pressure continues. In fact, in December 1974, for the first time in history, there was a national drop in employment accompanied by an increase in national income. This is due to high unemployment benefits and other social payments. These benefits, coupled with the power of coercive unions, guarantee that wages and prices will not drop to self-correct the recession, but that the recession will continue accompanied by inflation (prices will continue to rise).

A Program For Ending Inflationary Recession

The first step toward ending inflationary recession must be convincing the public that the cause for it is government intervention into the economy.

At the heart of inflation and recession is the psychology of fear. Inflation feeds upon itself as consumers bid up prices in the short run because of the fear that prices will be higher later on. Similarly, businessmen, fearing long run regulations and loss of profits, misallocate capital and cause a distortion in the investment markets. Only a clear guarantee that inflation, unemployment and business regulations are on the way out can allay business uncertainty and promote economic recovery.

Second, there must be an absolute freeze on monetary expansion by the Federal Reserve System. Americans can no longer afford to finance more government spending, excessive union wage increases and unsound investments with printing press money. Price inflation cannot occur without an increase in the money supply. The end of federal deficits does require that investors will have to rely more upon private savings for financing then they are accustomed to. However, the third and fourth points of our program will obviate any difficulties with this.

Third, government spending must be limited to tax receipts. This will, of course, require a reversal of the trend of the past 40 years. Huge slashes in defense and welfare spending will have to be undertaken. By removing Uncle Sam from the lending market, an estimated 40% of the loanable funds will be freed for investment in productive, non-government enterprise.

Tax rollbacks are the fourth step of the libertarian program. Returning stolen funds to their proper owner is in itself desirable, and tax cuts are also an integral part of our fight against inflationary recession.

The effect of freezing the money supply and cutting federal spending will be a decrease in aggregate demand from the previous recipients of those funds. This decrease will be offset by tax funds returned to taxpayers. In addition, much of the tax refund will end up in money markets through savings, thereby arresting the shortage of loanable funds for business expansion, mortgages, car loans, etc.

To the extent that increased demand from lower taxes exceed the decrease in government spending, there may be some price inflation in some *specific* prices (such as consumer goods). However, without a general increase in the money supply, there can be no increase in the general price level (i.e., the prices of all goods and services).

To stimulate GNP growth, there is the final step in our program: elimination of government regulation of business and coercive pro-union legislation. By eliminating regulatory agencies such as the ICC, FTC, FAA, etc. (which promote economic

inefficiency), the economy will again begin to grow. By eliminating market controls and coercive union legislation, productivity, wages and capitalization will again increase.

The path back to a free and prosperous economy will not be an easy one. The political power of the beneficiaries of inflation recession—large labor unions, government bureaucracies and government-subsidized businesses—will be used to impede us every step of the way. But that path is the only alternative to every-higher inflation and ever-deeper recession.

In the end, the complete solution to inflationary-recession and most of our other economic ills, lies in a *total separation of government and the economy*. Only when it is impossible for special interests to vote their way to wealth at everyone else's expense, will a prosperous and stable economy be achieved.

"I must commend you on what is, I believe, the longest and largest libertarian educational effort in world history: S.I.L., its publications and activities. I cut my teeth on S.I.L. position papers in college back in 1969."

Karl Bray

"From my observation, since its inception in 1969, the Society for Individual Liberty has been an important factor in introducing and disseminating libertarian ideas. It has helped to provide a cohesive link for libertarians."

Robert LeFevre

The **Society for Individual Liberty** was the first national educational and activist organization dedicated to the principles of libertarianism. For more than ten years, S.I.L. has been promoting the goal of a free society in America through leadership, development of Libertarian clubs, dissemination of ideas, and encouragement of activist projects.

Your participation in S.I.L., through membership and through local activities, will help advance the future of the free society. Please show your support by joining S.I.L. today.

Copies of this brochure are available for 25¢ for \$1 from: Society for Individual Liberty, PO Box 1147, Warminster, PA.

A DECADE OF ACHIEVEMENT

Since 1969, S.I.L. activities have been a vital part of the Libertarian movement. A review of these varied activities shows why S.I.L. has been described as a "cohesive link for libertarians".

CONFERENCES: More than one dozen regional conferences have been sponsored by S.I.L. since the first East Coast Conference in Philadelphia in 1969. All of the most highly regarded libertarian spokesmen have appeared at S.I.L. conferences: Murray Rothbard, Nathaniel Branden, John Hospers, Roy Childs, Karl Hess, Robert LeFevre, Tibor Machan, David Friedman. S.I.L. Conferences provided the first opportunities for many libertarians to meet and exchange ideas.

PROJECTS: The first project to achieve nationwide prominence for libertarianism was S.I.L.'s "Census Resistance '70" project. Major publicity resulted from the libertarians' spearheading of the fight for a voluntary census.

The S.I.L. originated "National Tax Protest Day" is now a fixture come April 15th with most libertarian clubs. Every year since 1973, the cry "Taxation is Theft" is brought home to more and more weary taxpayers.

S.I.L. also sponsored an "Anti-Draft Day" in 1973 when it appeared that the mechanism for having a draft would be left in place. In 1979, S.I.L. is in the forefront of libertarian groups working to stop any return to compulsory national servitude.

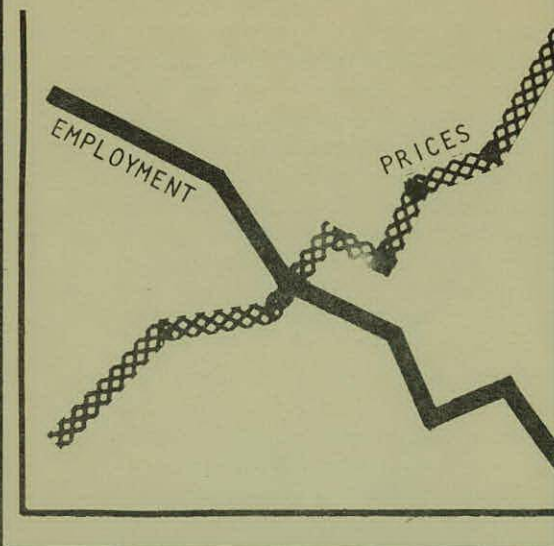
Building on a theme of "The American Revolution Betrayed", S.I.L. was the only libertarian organization to get deeply involved in an effort to explain the libertarian origins of the Revolution. S.I.L. sailed into Boston Harbor in 1973 at the 200th Anniversary of the Boston Tea Party and dumped "government" overboard. S.I.L. produced a film, "We Won't Get Fooled Again", documenting the betrayal of the Revolution. This film has been shown hundreds of times by libertarian groups.

LITERATURE SERVICES: S.I.L. originated the idea of inexpensive libertarian "issue papers" and, by the end of our first year, had distributed more than 175,000 copies. Today, there are more than 40 different subjects in the issue paper series and distribution has passed the million mark.

OTHER PROJECTS: S.I.L. has made books and magazines available at discount prices, produced the well-received "Bill of Rights—Void Where Prohibited By Law" poster, sponsored parties at conventions, conducted opinion surveys, built a Speakers Bureau, helped campus clubs get started with free literature, and presented a yearly "Phoenix Award" to ten prominent libertarian spokesmen.

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MILTON V. ADAMS



SOCIETY FOR INDIVIDUAL LIBERTY