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Letter to the Editor:

There appears to be a general ignorance (or at least an evasion) of the fundamental causes of inflation and recession in the U.S. economy exhibited by most "economists", politicians, and journalists. As a result many persons have been profoundly misled. The majority of political candidates are not substantively addressing these economic issues because both major parties have had a hand in bringing them about.

Inflation and recession are primarily caused by government intervention. Although inflation can take place in a purely laissez-faire economy (one without government interference in the economic machinery) as a result of increased demand and relative scarcity, this less virulent kind of inflation is necessary both to reallocate finite capital resources (leading to an increase of production to meet demand for goods and services) and to permit the conservation of scarce resources if they are truly scarce, promoting the development of substitutes. Price rises in a free economy are transitory, since competing firms must undercut each other's prices to stay in business.

Historical data confirm that a free economy, unfettered by government intervention, consistently lowers prices for the consumer and raises the real standard of living. During the nineteenth century, laissez-faire capitalism produced a drop in the United States wholesale price index (with 1910-1914 prices as the baseline) from 129 in 1800 to 82 in 1890. Capitalist growth does not produce inflation. In fact, the steady growth of inflation in the U.S. economy has accompanied government-initiated monetary policies (such as the Federal Reserve Act of 1913, which produced the depression of 1929). It is a well known fact among economists that the length and severity of the depression was aggravated by federal monetary policies. Roosevelt's National Industrial Recovery Act and the "New Deal" established the basis for the present inflation without ameliorating unemployment amounting to over 10 million persons in 1937.

In a laissez-faire capitalist economy profits result from cutting production costs. Consumers at all levels of society benefit in the form of lower prices and greater real income. This is in contrast to a "mixed economy" (partial governmental control) wherein artificial monopolies are created by government protection. The consumer pays higher prices because competition is not allowed by law in an increasing number of industries.

Even government officials such as Federal Trade Commission Chairman Lewis A. Engman and Lowell Mason, past member of the FTC, have described the ill effects of government regulation in no uncertain terms. Referring to the effect of the Civil Aeronautics Board and the Interstate Commerce Commission on the transportation industry, Engman states that "for all intents and purposes there is no competition at all."

Government legislation (Sherman Antitrust Act) enforces both the existence of inefficient firms (Lockheed) and the continuation of monopolies (U.S. Postal Service). It has punished efficient and competitive enterprises such as the Aluminum Company of America (ALCOA) and International Business Machines (IBM). The consumer pays for this in higher prices and the wage-earner suffers from fewer employment options as government-protected monopolies take over. Private firms are restricted by law from competing by cutting prices. Government legislation has institutionalized inflation by making free-market competition illegal.

In a free market, where subsidies, franchises, large-scale ownership of land and resources, and cartelization are constitutionally not permitted to the government, increased prices caused by increased demand will promote higher production of goods and services. These goods and services, and the creation of new efficient ways to produce them, cannot be legislated into existence. Only the profit motives of capitalists (entrepreneurs, bankers, stockholders) can lead to the wise investment of funds (representing plant, equipment, etc.) leading to the viable production of goods and services. Government cannot efficiently perform this task because it does not have to compete and because the bureaucrat making the decisions does not suffer a personal loss if the undertaking flounders and loses millions (as did the Urban Renewal Program). The capitalist entrepreneur suffers for his ineptitude by losing his business. He pays for his own mistakes. The capitalist cannot force you to pay or to work. On the other hand, government, which has the legal monopoly over coercive physical force, can and does force you to sacrifice your earnings to shore up its bureaucratic bungling.

The competitive availability of goods and services on the market increases the supply, quality, and variety in relation to the money supply (a supply which can be only limited if it is backed by gold), thus lowering prices and--more importantly--providing real increases in the standard of living. In a free-market economy, consumption is in line with production and investment is a function of capital savings. In a government-controlled economy, production and savings are sacrificed to consumption. Inflation comes about as a result of too few goods and services answering too many paper claims (paper money, welfare checks, foreign aid, etc.). Recession results when inflation reduces the number of goods and services which relatively fixed incomes can purchase, and the lack of investment capital to expand production. This causes unemployment and lowers purchasing power still further. Essentially, this is the mechanism of the present "stagflation" (economic stagnation and inflation).

Government intervention in the form of fiscal programs, monetary policies, and regulation are the cause of the present inflation. This kind of inflation, however, is not going to stop as it would in a free economy. Instead, it will get progressively worse as government continues to (1) increase its spending, (2) employ fiat money policies (hidden taxation), and (3) strangle private business through arbitrary regulation.

In terms of fiscal programs the U.S. government is now demanding well over one quarter of the gross national product for essentially non-productive uses. The federal budget has climbed from 9 billion dollars in 1940 to over 300 billion in 1974. The number of government employees at all levels is 14.5 million, or one out of six employed persons. This number added to the 15 million welfare recipients constitutes close to 30 million citizens, an enormous political bloc.

Although defense is a reasonable function of government, the American welfare state now spends over 111 billion dollars for "health, education, and welfare". In the state of Washington alone the cost of welfare programs was 1.16 billion dollars in 1972--an average yearly increase of 76 million dollars since 1950.

The prices of goods and services are going up because bureaucrats and legislators are squandering our wealth. Consumers of goods and services should not berate private industry for higher prices. These are economically inevitable when government inflates prices by expropriating nearly one quarter of the real wealth for non-productive--and more often counter-productive--uses. The cost of living can only go up when goods and services are being uselessly consumed.

Government deficit spending has created a national debt of well over 450 billion dollars. The need to refinance this debt by the sale of government securities inflates interest rates in the private sector. This results in higher costs for financing the expansion of private industry. The U.S. government, the world's largest debtor, by competing with the private sector for the supply of lendable funds, drives up the cost of ALL goods and services.

Not only are short-term costs and prices driven up, but the ability of industry to expand to meet long-term increases in consumer demand is weakened. High interest rates, the result of government financing of deficit budgets (which are the result of heavily padded social welfare schemes), drives up the cost of borrowing funds for plant expansion.

Government-induced high interest rates are the prime cause for the decline of the housing industry (providing a future rationale for government-financed low-income housing). Banks, and Savings and Loans institutions, cannot finance low-interest mortgages because they cannot attract low-interest deposits when interest rates are skyrocketing.

Monetarily, government policies increased the amount of fiat (paper) money by over 14 percent last year. This means that there are that many more dollars chasing the same quantity of goods and services. The effect of this can only be higher prices (inflation).

Other government policies are also at work destroying the basis for making a living. Regulatory agencies such as OSHA (Occupational Safety and Health Administration), EPA (Environmental Protection Agency), ICC (Interstate Commerce Commission), and CAB (Civil Aeronautics Board) and swarms of other agencies are directly responsible for grossly dropping the level of productivity and competition. This is so by the admission of top officials within these agencies.

Government labor legislation is a basic cause of inflation. Minimum Wage has artificially raised the cost of unskilled labor without increasing its productivity. It has enlarged unemployment by pricing the part-time unskilled worker out of the market, thereby lowering the overall productivity of the potential work force. By reducing the number of persons who can be gainfully employed, minimum-wage legislation has increased the coercive monopoly of labor unions. These, through government protection, have become powerful labor trusts able to force enormous wage increases from employers, as well as denying every individual the right to negotiate his or her own wage-salary contracts. This results in unemployment, because labor is artificially priced beyond what the market is willing to pay.

Because of these conditions, key industries such as transportation and mining are being ruined by featherbedding (an unnecessary number of employees on the payroll). One of the major reasons for industry's present overdependence on oil and gas fuel supplies was the overpricing of coal due to the overpricing of labor at the behest of the United Mine Worker's Union.

Featherbedding, along with other government regulatory fumbling, has destroyed the railroads. These are now in the process of being nationalized by the federal government. The major airlines, and the petroleum industry, are next in line. Competition in both these industries has already been crushed through decades of government intervention.

Therefore, the prime cause for inflation is not private business, as the welfare statisticians claim. It is the fiscal policy of more-more-more government spending, the monetary policy of ever-increasing floods of paper money, and government regulatory policy which has hamstrung industry.

If the political leaders of this nation truly want to reduce inflation and raise the standard of living, they will (1) cut government programs, cut spending, and cut taxes in large amounts, and (2) return to backing U.S. currency with real value and increase the money supply at a slow and predictable rate, if at all, and finally (3) abolish the tanglefoot regulatory agencies designed to hamper production.

Unless Americans become aware of these conditions and take action by becoming politically active, we will eventually go the way of Britain and Italy. The long-term outcome of present government policies is not merely high prices and widespread unemployment, but the rise of totalitarian institutions and thence, almost certainly, to global war.

If you are truly concerned for your children and grandchildren, as well as yourself, learn about these conditions and act now. Tomorrow can't be any better than today.

Yours in freedom,

Richard Robert Slomon
1425 Fifth Ave. North, #202
Seattle, Wash. 98109
(206) 285-4783