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Special Issue On The Freeze

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The End Of Economic Freedom

On August 15, 1971, economic freedom died in America. And the terrible thing is that everybody cheered. Where was the opposition? Where are the people who, for four decades now, have been denouncing wage and price controls?

Where are the businessmen? For decades, the business community has been proclaiming its devotion to free enterprise, to the free price system. For decades, they have been attacking direct controls on prices and wages. Where are they now? They are the loudest and most delighted of the cheering squad for Mr. Nixon's New Totalitarian Economic Policy. On the day after Nixon's sudden and dramatic price freeze, the *Washington Post* reported that the mood of the business and banking community was "almost euphoric." William P. Gullander, head of the National Association of Manufacturers, expressed his delight at the wage-price freeze; and George G. Hagedorn, chief economist of the NAM, and who has many times proclaimed his devotion to the free market, joined in the hosannahs. The Chamber of Commerce of the United States, which in 1951 had issued a report on *The Price of Price Control* demonstrating that price and wage controls do not work and impose a "terrible burden" on the economy, was scarcely less enthusiastic in hailing the program.

On August 24, furthermore, Secretary of Commerce Maurice Stans met with eleven of the heads of the nation's biggest corporations; Stans reported delightedly that all of our biggest businessmen not only hailed the controls, but "want to be sure the program does not terminate on Nov. 12". In fact, not a single businessman of any stature, not one, has been reported to be anything but enthusiastic about the wage-price freeze. And so where is all the talk about the free enterprise system? Where are the men to rise and defend our lost economic freedom?

The conservatives of this country have scarcely done any better. For decades, they too have opposed "creeping socialism" and have been particularly vehement in attacking direct controls over wages and prices and their dictation to the individual on what price or wage he may charge or pay on the market. Where are the conservatives now? For the most part, we have heard only a resounding silence. In fact, many conservatives have simply joined in the cheering, have hailed the dramatic move by our "strong" President, and have curiously forgotten their supposed devotion to "strict" construction of the Constitution as a protection for our liberties. The slight amount of conservative criticism that

has appeared has been timid and wistful, with a nary a mention of the dictatorship that has suddenly buried our economic freedom, and scarcely a fraction of the righteous indignation with which they greeted Mr. Nixon's grandstand announcement of his trip to Communist China. *Human Events* expressed the hope that the controls would not be permanent; and the nation's most prominent conservative, William F. Buckley, in a dithering column of August 19, stated that the controls were not necessary but that, on the other hand, Mr. Nixon saw that controls could work for an "intermediate length" of time, even though they cannot work either in the "short" or the "long" run. By what principles or what precise length of time we can enjoy "intermediate" success with price and wage controls, neither Mr. Nixon nor Mr. Buckley has bothered to let us know.

And where are the nation's economists? For at least two decades, virtually all the nation's economists, let alone Arthur Burns, Paul McCracken and the other Administration economists who have led us to the destruction of the free economy, have told us, with all the certainty of which they are capable, that price and wage controls do not work, that they tackle only the symptoms and not the causes of inflation, that controls do not halt inflation but only bring about shortages, distortions, disruptions, and black markets. Yet, virtually all of them have jumped on the control bandwagon, with no hesitation whatever - even Professor Samuelson, whose own best-selling textbook reveals the unworkability of direct price controls on the market. It is no wonder that virtually the only economist to champion controls all along - J. K. Galbraith - has hailed Mr. Nixon as a "repentant sinner"; he could have included the nation's economists in the gibe. There have only been a few honorable exceptions to the stampede: Milton Friedman mildly criticized the controls as unworkable - but without denouncing the invasion of freedom involved. And 16 Chicago School economists headed by Allen Meltzer of Carnegie-Mellon University, did issue a statement denouncing wage and price controls as "inequitable, wasteful, inefficient and destructive of personal freedom". But that is literally all. How ironic that the only large-scale and determined attack on the wage-price freeze was launched by the very Democrats and labor unions that had been calling for controls for many months! Some of the union rhetoric was impassioned and even denounced the controls as dictatorial and unconstitutional - thus reminiscent of the conservatives and businessmen of days gone by.

Leonard Woodcock, head of the United Automobile Workers, even charged that "Nixon's is the hand that held the dagger" but that the Democrats, in passing the authorization for controls in the first place, had put the dagger into his hand.

But it is highly unlikely that the nation's unions, despite their passion and their early talk of non-compliance and a general strike, will be the instrument to save American freedom. For the unions, after all, have long championed such controls, and merely resent the fact that profits weren't frozen as well. Furthermore, they are already showing indications that if unions are given their share as partners in a tripartite control arrangement, such as ruled the country during the days of NRA and World War II - a tripartite rule of big business, big unions, and big government - they will end their outcry. In short, labor unions hardly oppose the controls in principle; they just want a bigger share of the pie.

The Cause of Inflation

The controls won't work. The prime reason why they won't work is that they do not tackle the *cause* of inflation, but only lash out at the symptoms. Let us see why. Every *price* is simply the terms of an exchange on the market, an exchange with money on one side and some good or service on the other. When I buy a newspaper for a dime, ten cents in money is being exchanged for one newspaper; when I buy a hat for \$5, five dollars in money is being exchanged for one hat. And so the key to what makes prices high or low is the relationship between the supply of goods available and the supply of money which can be used to purchase them. Suppose, for example, that by some magic process, the quantity of money available in the country doubles overnight. The supply of goods remains the same, for nothing has really happened to lower or raise them. But then we will all enter the market with twice as many dollars burning a hole in our pocket as compared to yesterday. And if consumer tastes remain about the same, this means that twice as much money will be bidding for the same amount of goods, and all their prices will approximately double; we will all have to pay twenty cents for the same newspaper and \$10 for the same hat.

In the unhampered free market economy, the supply of goods and services usually increases, as investment and productivity rise. This means that the tendency of the free market will be for prices to *fall*, some prices of course more than others, depending on where productivity increases the most. It is rare that production actually *decreases* in a free economy, and certainly in the last decade as inflation has continued and accelerated, production has generally continued to go up rather than down. So we cannot account for the continuing inflation from the production side. Where then is the culprit? It is the *money* side, for the supply of dollars has continued to go up, and even to accelerate, especially during the Johnson and Nixon Administrations. And as the supply of dollars has risen and risen ever faster, prices have gone up as well - all prices: including rents, wages, and interest rates. This year, for example, the supply of money has been increasing at a rate of 12-16%; is it any wonder that prices have kept increasing as well? Furthermore, in all the hullabaloo about everything being "frozen", one of the vital factors conspicuous for *not* being frozen is the money supply, which keeps on rocketing upward.

Who, then, is responsible for the continual and growing increases in the supply of money? It is *not* big business or little business or labor unions or consumer "greed" or international speculators or any of the other economic forces that government has focussed on to pin the blame for inflation. *The culprit is none other than the federal government itself.* It is the federal government and no other organization that has absolute and effective control of the supply of money, and regulates it to its own content. It is

the federal government that has been merrily increasing the supply of money, to "stimulate" the economy, to finance its own now enormous budget deficits, to help out favored borrowers, to lower interest rates, or for any other reason.

Note then the stance of the government, whether it is the Nixon or Johnson or any other administration in the history of inflation. First it pumps more money into the economy, and continues to do so. *Then*, as the new money inevitably spreads throughout the society, and as prices and wages and rents inevitably increase in response, the government itself becomes increasingly possessed with righteous indignation. It issues edicts, bellows about social responsibility, and denounces various groups in turn for supposedly causing the price inflation. Business is denounced for raising prices, labor unions for asking and obtaining wage increases, landlords for raising rents, and sometimes consumers for spending too much. But never, never does the government bother to point to its own responsibility for the whole problem. Instead, it continues to pour more money into the system, and then to wax indignant when prices and wages rise in inevitable response. The White Knight of government, with its myriad of experts and advisers, marching out to man the ramparts of the "fight against inflation", turns out to be the very culprit who is the source and origin of the whole problem.

How does the government increase the money supply? The old candid days of simply printing more greenbacks, such as caused inflation during the Revolutionary War and the Civil War, is now hopelessly out of date. For one thing, the process was too clear, and when the "Continental dollar" printed in massive lots during the American Revolution became virtually worthless, it was clear to almost everyone that the unlimited printing press of government was the responsible agent. It was from that experience, by the way, that the old American phrase, "Not Worth a Continental", originated. The current inflationary process is much more subtle, though no less effective, and hence understood by very few non-economists. It works something as follows:

The controller and virtual dictator of the money and banking system is the Federal Reserve Board, appointed by the President. The Federal Reserve Act gives to the Federal Reserve Banks, run by the Board, the monopoly of the issuance of paper money, and forces the nation's commercial banks - *not*, by the way, against their will - to keep their reserves at the Fed. The commercial banks are then allowed to *create* money - in the form of demand deposits, or checking accounts - to a multiple of approximately 1:6 on top of their total reserves. In short, if total bank reserves at the Fed are \$10 billion, the banks are allowed to create and lend out up to \$50 billion more, until their checking accounts total \$60 billion. Almost always, the banks are eager to do so. If, then, bank reserves increase by another \$1 billion, they will create \$6 billion in new money in the economy.

The key lever in the creation of new money and the expansion of the money supply, then, is the total of bank reserves. These are under the complete control of the Federal Reserve Board itself, which keeps seeing to it that bank reserves increase, and at a rapid rate. How does the Fed do this? Basically, by going into the "open market" and buying assets. Actually, it doesn't matter *what kind* of assets the Federal Reserve Banks decide to buy. Suppose, for some reason, the Fed takes it into its head to buy one of my old typewriters. It purchases a typewriter from me for \$30. The Fed now has another typewriter in its offices, valued at \$30. I - and this is the crucial step here - have a check for \$30 on the Federal Reserve Bank of New York. I can't do anything with the check; the Fed does not have personal accounts with the public. I have to take my \$30 check and *deposit* it with my commercial bank, say Chase Manhattan. I now have an increase in \$30 in my bank account; the total money supply in the economy has already increased by \$30, since checking accounts function as money.

But this is by no means all; the Chase Bank delightedly takes the \$30 check on the Fed and deposits it in its own account at the Federal Reserve Bank of New York. This increases the Chase's reserves by \$30, and it - or more precisely, the banks as a whole - can now increase the nation's money supply by a multiple of 6:1, by \$180 altogether, \$150 of which go into new loans to business.

Therefore, if the Fed buys any asset from a member of the public, total bank reserves increase by the same amount, and the total money supply increases by *six times* that amount.

In actual practice, the Fed doesn't bother seeking out my old typewriters. Neither does it incur the charge of favoritism involved in buying corporate stocks. In practice, it confines its purchases to existing U. S. government bonds and other securities. If the Fed buys \$1 million worth of U. S.

government bonds from private bond dealers, total bank reserves will increase by \$1 million, and the money supply as a whole by \$6 million.

And so the major culprit of the inflation has been the Federal Reserve Board, which has been merrily buying government securities on the open market and thereby leveraging the money supply ever upward. The chairman of the Fed for the last year and a half, and therefore the biggest single culprit, the bearer of the major share of the guilt, for our inflation, has been none other than Arthur F. Burns - the same Arthur Burns who has been hailed so fulsomely by the press for his great work in pressuring President Nixon to freeze wages and prices. Arthur F. Burns, the man most responsible for inflation, thereby becomes in the eyes of the public the greatest battler against it.

The Function of the Price System

The free price system, the free fluctuation of all prices, wages, and rents, which has been so blithely destroyed by the President, is the heart and soul of the functioning of the market economy. The Freeze, or any direct control, of prices strikes at the heart of the effective working of our economy, and will act to reduce the economic system to chaos. For each and every price, of the innumerable prices of all varieties of goods and services in the economy, reflect the individual forces of supply and demand. If the demand for frisbees rises and the demand for hula hoops falls, the price of the former will increase and the price of the latter will fall, and this will give the signal to the toy manufacturers, through the increased profits in frisbees and the decline in hula hoops, to shift from producing the latter to the former. Similarly, if copper becomes more scarce, its price will rise, and the scarce product will be allocated to those uses and firms which can most profitably and productively employ copper. The more marginal uses will be sacrificed for the more important. And if a new invention occurs, say, in frisbee machinery, the lowered costs will lead to a greater production and hence a fall in frisbee prices. In this way, prices - all prices, including wages and rents - are a sensitive and ever responding indicator to the changes in the underlying forces of supply and demand. A free price system leads businessmen in pursuit of profit and in avoidance of loss, to produce most efficiently those products most desired by the mass of consumers. Cripple that system and the intricate price mechanism for conveying signals and information to producers is destroyed. The economy is then at sea without a rudder, with nothing to tell the producers what they should produce and what means of producing are most efficient.

The Freeze Won't Work

At the very beginning of a freeze, not much appears to be different - understandably, since prices and wages as of August 14 reflected the supply and demand forces on August 14. At first, then, the frozen prices approximate the free market results. But as time goes on, the freeze becomes more and more artificial, more and more out of tune with the ever-changing forces of consumer taste and demand, and producer supply and efficiency. The longer the freeze continues, the more distortions, inefficiencies, and misallocations of resources appear in the economy. That is why in the history of controls, such as OPA in World War II, they begin in euphoria and increasingly become ineffective, disastrous, and unworkable.

Indeed, as of the writing of this article in the first week of September, intractable problems have already appeared in the freeze. Teachers are hired continuously but

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"In the short run, the only sound way out for the Nixon Administration is to be willing to engage in a truly rigorous anti-monetary inflation program, to stop inflating the monetary supply and, indeed, to engage in some old-fashioned monetary contraction. The recession would then be sharp but short-lived, and recovery would be brisk and healthy. The anti-inflationary monetary contraction must be sharp and determined enough to offset the inevitable rise in relative consumer prices and to change the inflationary expectations of the public; it must be rigorously 'hard money'. Only then will prices level off and even (gloryosky!) decline, and only then will interest rates fall. The Administration must cease pursuing the Friedmanite pipe dream of a levelling off of prices along with recovery but without abandoning monetary inflation. In the long run, of course, we need a total overhaul of our inherently statist and inflationary monetary system, with a liquidation of the Federal Reserve System and a return to a genuine gold standard."

"But the Nixon Administration is likely to turn... in precisely the opposite direction. Unwilling to bring monetary inflation to a halt, unwilling to go into a truly 'hard money' program, it might very well add onto its vacillation and drift a turn toward the totalitarian method of wage-and-price controls. Already there are ominous signs of wage-price controls on the horizon. Arthur F. Burns, the man our anarcho-Nixonites assured us was soundly free-enterprise, now talks of 'voluntary' or even coercive price controls. Such business economists as Pierre Rinfret and Linel Edie and Co. have already frankly called for wage-price controls. There are two things wrong with such controls: one, they are the totalitarian antithesis of freedom or the free economy, and two, they don't work, leading instead to the 'suppressed' inflation of black markets and eternal shortages and misallocation of resources. Why, then are so many of our 'conservative' business economists reaching for such controls? Precisely because profit margins are being squeezed by the pressure of wage-costs, as they always are in recessions; and therefore, these business economists hope to stop wage increases by the use of compulsion and the State bayonet.

Guaranteed income schemes; continuing budget deficits; monetary inflation; and now wage-price controls; under the cover of traditional free-enterprise rhetoric, the Nixon Administration continues us ever further down the path toward the economy of fascism."

- "The Nixon Mess", *The Libertarian Forum*, June 15, 1970.

they only are hired officially at the beginning of the fall term; shall they receive a previously-agreed upon wage increase? The September 6 issue of the *New York Times* reports a series of totally contradictory answers to tough questions posed about the freeze in Internal Revenue offices throughout the country. For example: can a landlord raise rent if he puts in a new incinerator? No, say some IRS offices, that's a violation of the freeze; yes, say others, because the incinerator improves the dwelling which is therefore a different, and superior, housing product deserving of more rents. But if we adopt the latter, highly sensible, position, what standard does the government at in setting the new fixed rent? On wages, the government at first tried to freeze wages even if the person is promoted - an absurd position which then freezes a man's salary for more productive work, and which cuts his real wages and ends the incentive to accept promotions. It then reversed itself, allowing higher pay for promotions. But then again: how high can the increase be? If the standard is the prevailing job, suppose "new" jobs, both real and phony, are created; what is the standard then? Another good question that the *Times* posed to the IRS: suppose that an employer wants to reward an employee. He can't give him a wage rise or a bonus during the freeze, but is he permitted to grant an extra week's vacation? This is of course an increase in the employee's pay-per unit of work. The befuddled reaction of the government officials is just the beginning of the headaches they will confront, and the evasions they will, step by step, inevitably concede:

"The question about whether an employee could be given an extra week's vacation as a reward for good work produced slightly more no's than yes's. But one official, who said that the extra vacation was prohibited by the freeze, volunteered the suggestion that the company go ahead and do it anyway. 'It would be considered a bonus,' the official said. 'But who will know. Just don't say anything about it.'"

Problems are endemic. The professional athletes justly complain that their brief working life means that they suffer a greater injustice from the freeze than the rest of the labor force. An owner of a laundromat in New York State had just been about to raise his prices, after a considerable rise in costs; but now that he cannot, he is losing money and announces that he will have to go out of business.

The freezing of all unit prices, indeed, does not necessarily insure the continuing profits of each business. Take, for example, the case of a businessman who must replace worn-out machinery or a landlord who must install a new boiler. His rents, and his profits, were calculated on the basis of his old costs; but the boiler or machinery price, while no higher than on August 15, is likely to be considerably higher than it was in, say, 1960, when it was originally installed. And so the higher capital prices will cut severely into his profits.

There is another point here that must be emphasized. There are other elements that enter into a firm's costs besides the prices it must pay for specific units of labor or raw materials or equipment. For a firm might have to shift its purchases from a less expensive to a more expensive material, or from less to more highly skilled labor. And, if it does so, its costs will increase, and its profits possibly turn into losses, even though the price of each particular thing has remained the same. (On these and other problems of price controls and freezes, see Jules Backman, ed., *Price Practices and Price Policies*, New York, Ronald Press, 1953, Part V.)

Any price control will, of necessity, fix the price higher, lower, or precisely the same as the free market would have set. The freeze begins with the latter and rapidly deviates as time goes on. If the price is set too high, then unsold surpluses will pile up; if the price is set too low, then - provided that the controls are carried

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"Consider also the implications of the Penn Central fiasco. The Nixon Administration, by its actions, is all but saying that it will not permit any large corporation to go under . . . Nixon is apparently determined to extend government aid to any major firm in any industry that wants it . . . Ever since the Hoover New Deal, the policy of the federal government has been moving toward one of assuring the profitability of American big business . . . With the government more and more willing to underwrite losses, there is less and less incentive for corporate heads to heed the warnings of the market, and curtail operations where indicated . . .

The point here is that the business executive now need not cut prices in the face of falling demand; or resist wage demands of unions. Union leaders need worry less about whether they are asking for more than a market wage. The federal government has announced its willingness to supply cash - virtually to print money up if necessary - to major corporations that find themselves in a 'liquidity' crisis (i.e. find themselves overextended)."

- Gerald P. O'Driscoll, Jr., "Nixon and the Economy", *The Libertarian Forum* (August, 1970).

out - shortages will develop. Since the purpose of the freeze and further controls is to set maxima rather than minima, and since they are being imposed to deal with an inflationary problem, then we can expect that shortages will grow and intensify as the controls continue.

In short, prices rise in the first place because the federal government has been pumping too much money into the economy, and increasing money leads to higher prices. If, then, the government tries to cure the price rise by issuing freeze or control orders, this is equivalent to a physician trying to cure his patients fever by breaking open the thermometer and holding down the mercury column. More to the point, the analogy would be complete if the physician has been injecting fever germs into the patient all along.

As controls continue, then, either or both of the following will happen: (1) to the extent the controls are effective, shortages will emerge and intensify - and we will once again all enjoy the wartime phenomena of shortages of meat, cigarettes, gasoline, and whatnot. During World War II, people were more willing to bear these conditions because they thought - wrongly - that the shortages were the inevitable result of the war effort and not of the OPA price ceilings. But now there is no all-out war to mask the grim economic realities. (2) The controls can and will be increasingly avoided and evaded. One form will be outright "black" markets, with all the scarcity, corruption, and disallocations that they imply. Actually, the "black market" is simply the market, the free market, trying desperately to emerge in the midst of the crippling network of controls. Another form will be all manner of indirect avoidance and outwitting of the controls. We have already mentioned in wage controls such devices as phony promotions and extra vacations. There are numerous others, including getting around price ceilings by subtle reduction in the quality or size of the product. Soon we will find, for example, our candy bar packages containing even more air than they already do, or the quality of the chocolate declining still more. Even with a vast network of controls, even with a million-man enforcement arm, it would be impossible to police all of these end-runs around controls.

A well-known method of getting around a price freeze

is simply to shift to a new product. Since the product wasn't being produced at all at the date of the freeze, there are no price guidelines for the government to impose. In Allied-occupied Germany after World War II, where the Allies imposed severe price ceilings specifically to punish Germany and to cripple its industrial recovery, the result of the controls was truly grave shortages in the necessities of life, food, clothing, etc., which had been produced in the pre-World War II base year. Instead, the energies of the German industrial machine poured into all sorts of trivial new products - toys, gimcracks, etc. Germans went starving and poorly clothed while surfeited in toys. It was only with the "Currency Reform" of 1948 which lifted the price controls that Germany was able to eliminate the shortages rapidly, to shift from toys to useful products again, and to move on to the famous "economic miracle" of the postwar years. (For the instructive story of price control in occupied Germany, see Nicholas Balabkins, *Germany Under Direct Controls*, New Brunswick, N. J.: Rutgers University Press, 1964).

And so, the attempt to hold down the symptoms - price inflation - while pouring in new money only leads to what has aptly been called "repressed inflation", in which the repression bursts forth in the form of evasions and black markets.

Or else the government itself will reluctantly and increasingly grant exceptions and exemptions to the undoubted

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"Well, we have had two years of Nixonism, and what we are undergoing is a super-Great Society - in fact, what we are seeing is the greatest single thrust toward socialism since the days of Franklin Roosevelt. It is not Marxian socialism, to be sure but neither was FDR's; it is . . . a big-business socialism, or state corporatism, but that is cold comfort indeed. There are only two major differences in *content* between Nixon and Kennedy-Johnson . . . (1) that the march into socialism is faster because the teeth of conservative Republican opposition have been drawn; and (2) that the erstwhile 'free-market' conservatives, basking in the seats of Power, have betrayed whatever principles they may have had for the service of the State. Thus, we have Paul McCracken and Arthur F. Burns, dedicated opponents of wage-price 'guideline' dictation and wage-price controls when *out* of power, now moving rapidly in the very direction they had previously deplored . . .

But now the Administration has swung around to the Liberal thesis of monetary fiscal expansion to cure the recession, while yelling and griping at labor and employers not to raise wages and prices - a 'guidelines' or 'incomes' policy that is only one step away from wage and price controls . . .

Not only is it impossible for direct controls to work; their imposition adds the final link in the forging of a totalitarian economy, of an American fascism. What is it but totalitarian to outlaw any sort of voluntary exchange, any voluntary sale of a product, or hiring of a laborer? But once again Richard Nixon is responsive to his credo of big business liberalism, for direct controls satisfy the ideological creed of liberals while at the same time they are urged by big business in order to try to hold down the pressure of wages on selling prices which always appears in the late stages of a boom."

- "Nixonite Socialism", *The Libertarian Forum*, January, 1971.

"inequities" of the price and wage freeze. We have seen that these insoluble inequities have already emerged. Suppose that we have Mr. Jones, who is making \$2000 below the prevailing wage in his occupation, and was just about to receive an increase. Or take the laundromat owner going on the rocks. It is obvious - and openly acknowledged in Washington - that the absolute price-wage freeze cannot be extended forever. *Something* will have to be done about the inequity cases, the businesses losing money, the athletes with special problems, etc., and these problems of a changing economy will develop increasingly as time goes on. But if the economy can't be *frozen* indefinitely, then neither - in the eyes of the Administration - can the freeze be simply lifted at the end of 90 days. For then the repressed inflation will burst into the open, and prices and wages will soar to compensate for the enforced freeze. The only other option for the Administration will have to be *permanent* price and wage controls - with a vast army of bureaucrats making decisions about every individual inequity. In short, a recrudescence of the already failed OPA of World War II.

In recent years, Europe has seen a dismal record of failure of wage-price controls. From 1965 to 1970, for example the Labor government of Great Britain imposed a wage-price freeze to combat inflation, "voluntary" for the first year and compulsory thereafter. By 1970, it was clear that wages and prices had been advancing *faster* during the freeze than it ever had before. By June, 1970, when the British government abandoned the controls as hopeless, wages were rising at an annual rate of 10% and prices by 7%.

Price-controls have also played a vital but little-known part in the political history of Asia. One of the major reasons for the downfall of Chiang-kai-Shek, for example, was the fact that, due to national deficits and paper money inflation, China had been suffering, before and during World War II, from a runaway inflation, and Chiang had met the problem by imposing severe price and wage controls. The inevitable result of the controls was grave shortages throughout the country, and, as in so many cases in the past since the Edict of Diocletian in ancient Rome, the government met the problem by escalating the penalties for evading controls. Chiang, in fact, ended by making an example of black marketeers by executing them publicly in the streets. In this way, he lost his merchant and middle-class support; in contrast, the Communists, whenever they occupied an area of China, ended the monetary expansion and thereby cured the inflation. Is it any wonder that Chiang lost China?

As shortages pile up from the price controls, we can expect the next totalitarian advance: rationing. With demand permanently greater than supply at the frozen price, the government will try, in one area after the other, to impose compulsory quotas for everyone's purchases, as it did during World War II. The result will be further dictation and bureaucracy, a vast network of ration points and ration coupons, favoritism, inequities, corruption, and further black markets. For in the free economy, it is *price* that performs the rationing function, smoothly and easily. But it does more; for if there is a shortage of, say, tires, a higher price will not only "ration" the tires to those demanding them the most, it will also call more tires into production. Compulsory rationing will perpetuate the shortage.

Americans should never forget our last tragic experience with peacetime controls. After World War II, the Truman Administration tried to cling to vestiges of price controls; in particular, the ceilings on prices of meat. The result, during 1946, was a severe meat shortage, and a diversion of meat into the black markets. Finally, President Truman reluctantly lifted the controls on meat on October 14, 1946,

But this is by no means all; the Chase Bank delightedly takes the \$30 check on the Fed and deposits it in its own account at the Federal Reserve Bank of New York. This increases the Chase's reserves by \$30, and it - or more precisely, the banks as a whole - can now increase the nation's money supply by a multiple of 6:1, by \$180 altogether, \$150 of which go into new loans to business.

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And so the major culprit of the inflation has been the Federal Reserve Board, which has been merrily buying government securities on the open market and thereby leveraging the money supply ever upward. The chairman of the Fed for the last year and a half, and therefore the biggest single culprit, the bearer of the major share of the guilt, for our inflation, has been none other than Arthur F. Burns - the same Arthur Burns who has been hailed so fulsomely by the press for his great work in pressuring President Nixon to freeze wages and prices. Arthur F. Burns, the man most responsible for inflation, thereby becomes in the eyes of the public the greatest battler against it.

The Function of the Price System

The free price system, the free fluctuation of all prices, wages, and rents, which has been so blithely destroyed by the President, is the heart and soul of the functioning of the market economy. The Freeze, or any direct control, of prices strikes at the heart of the effective working of our economy, and will act to reduce the economic system to chaos. For each and every price, of the innumerable prices of all varieties of goods and services in the economy, reflect the individual forces of supply and demand. If the demand for frisbees rises and the demand for hula hoops falls, the price of the former will increase and the price of the latter will fall, and this will give the signal to the toy manufacturers, through the increased profits in frisbees and the decline in hula hoops, to shift from producing the latter to the former. Similarly, if copper becomes more scarce, its price will rise, and the scarce product will be allocated to those uses and firms which can most profitably and productively employ copper. The more marginal uses will be sacrificed for the more important. And if a new invention occurs, say, in frisbee machinery, the lowered costs will lead to a greater production and hence a fall in frisbee prices. In this way, prices - all prices, including wages and rents - are a sensitive and ever responding indicator to the changes in the underlying forces of supply and demand. A free price system leads businessmen in pursuit of profit and in avoidance of loss, to produce most efficiently those products most desired by the mass of consumers. Cripple that system and the intricate price mechanism for conveying signals and information to producers is destroyed. The economy is then at sea without a rudder, with nothing to tell the producers what they should produce and what means of producing are most efficient.

The Freeze Won't Work

At the very beginning of a freeze, not much appears to be different - understandably, since prices and wages as of August 14 reflected the supply and demand forces on August 14. At first, then, the frozen prices approximate the free market results. But as time goes on, the freeze becomes more and more artificial, more and more out of tune with the ever-changing forces of consumer taste and demand, and producer supply and efficiency. The longer the freeze continues, the more distortions, inefficiencies, and misallocations of resources appear in the economy. That is why in the history of controls, such as OPA in World War II, they begin in euphoria and increasingly become ineffective, disastrous, and unworkable.

Indeed, as of the writing of this article in the first week of September, intractable problems have already appeared in the freeze. Teachers are hired continuously but

You Read It Here

"In the short run, the only sound way out for the Nixon Administration is to be willing to engage in a truly rigorous anti-monetary inflation program, to stop inflating the monetary supply and, indeed, to engage in some old-fashioned monetary contraction. The recession would then be sharp but short-lived, and recovery would be brisk and healthy. The anti-inflationary monetary contraction must be sharp and determined enough to offset the inevitable rise in relative consumer prices and to change the inflationary expectations of the public; it must be rigorously 'hard money'. Only then will prices level off and even (gloryosky!) decline, and only then will interest rates fall. The Administration must cease pursuing the Friedmanite pipe dream of a levelling off of prices along with recovery but without abandoning monetary inflation. In the long run, of course, we need a total overhaul of our inherently statist and inflationary monetary system, with a liquidation of the Federal Reserve System and a return to a genuine gold standard."

"But the Nixon Administration is likely to turn... in precisely the opposite direction. Unwilling to bring monetary inflation to a halt, unwilling to go into a truly 'hard money' program, it might very well add onto its vacillation and drift a turn toward the totalitarian method of wage-and-price controls. Already there are ominous signs of wage-price controls on the horizon. Arthur F. Burns, the man our anarcho-Nixonites assured us was soundly free-enterprise, now talks of 'voluntary' or even coercive price controls. Such business economists as Pierre Rinfret and Linel Edie and Co. have already frankly called for wage-price controls. There are two things wrong with such controls: one, they are the totalitarian antithesis of freedom or the free economy, and two, they don't work, leading instead to the 'suppressed' inflation of black markets and eternal shortages and misallocation of resources. Why, then are so many of our 'conservative' business economists reaching for such controls? Precisely because profit margins are being squeezed by the pressure of wage-costs, as they always are in recessions; and therefore, these business economists hope to stop wage increases by the use of compulsion and the State bayonet."

Guaranteed income schemes; continuing budget deficits; monetary inflation; and now wage-price controls; under the cover of traditional free-enterprise rhetoric, the Nixon Administration continues us ever further down the path toward the economy of fascism."

- "The Nixon Mess", *The Libertarian Forum*, June 15, 1970.

thrown out of the office as a result. The point is that employers are *able* to pay the demands, and the question to ask is: how come? Why are they able to pay? The idea that businessmen simply pay higher wages and then "pass it on" in higher prices is economic nonsense. For surely businessmen are always trying to sell their products at as high a price as possible. If they can get a higher price, why in the world should they wait for unions to ask more before they raise their prices?

Or look at it this way: suppose all unions in the country should demand an immediate quadrupling of their wages and salaries. Does anyone think that the employers would agree? Why not, if all they have to do is to pass the raise on in higher prices? Furthermore, consider real estate prices, which have risen rapidly in recent years. How come, since there are no unions, no collective bargaining, involved here?

Obviously, something else is involved - and that something else is the aforesaid increase in the money supply. If the money supply increases at 10% per year, then all prices and wages will tend to rise by approximately 10%, and the employers will be able to pay the 10% increase. Once again, it is the hidden force of the money supply that is at work in determining the inflation.

Furthermore, empirically, union wage rates do not rise, overall, faster than non-union wages; in fact, in an inflation, the slowness of collective bargaining tends to make union wages lag behind non-union. Consider, for example, how very much the wages of domestic servants have gone up since World War II. Everyone knows this, and everyone also knows that there is no union in the domestic service field. So, again, unions cannot be the culprit.

One of the characteristics of the late stages of an inflation is that wage rates begin to press on prices, and profits are squeezed. It is clear that many big businessmen favor the freeze because they are trying to coerce wage rates from rising. Furthermore, they know that while both are in the long run unenforceable, price controls are easier to evade than wage controls. The worker is a visible, and indivisible, entity, and so his wage rate is more controllable; but the candy bar can easily be shaved a bit or its quality lowered without attracting attention. Furthermore, the reason for the enthusiasm of General Motors and Ford for the whole Nixon package is evident: for in addition to wage control, the auto manufacturers reap the benefits of the 7% excise tax cut on autos, and of the burden of the import tax surcharge on their burgeoning European competitors - to say nothing of the further burden that the dollar devaluation places on foreign imports.

Furthermore, the "voluntary" freeze on dividends clearly hurts the small investor, while leaving the large stockholders, who are more interested in a rise of stock prices than in dividends, completely unscathed. Here is another reason for big business to look kindly on the program.

Permanent Controls Equal Fascism

It is now clear that price and wage controls of some sort will succeed the 90-day freeze - in short, that we have now entered a political economy of permanent direct controls. There is only one word for this New Economic Policy, a word that is at first glance harsh and exaggerated, but is in fact precisely appropriate. That word is "fascism." A system of permanent price and wage controls, administered by a central government bureaucracy, probably headed by some form of tripartite board including Big Business, Big Labor, and Big Government - this is precisely what fascism is, precisely the economic system of Mussolini's Italy and Hitler's Germany. This is the economy of the "corporate state", administered by dictation from the top, controlled and monopolized by Big Business and Big Union interests, with the individual, and the consumer, the person who

NOTES ON THE NEW ECONOMIC POLICY

Nixon's grasp of affairs economic
Is so sparse as to be almost comic.
But it's not so amusing
That our rights he's abusing
As his deficits grow astronomical.

- David F. Nolan

suffers. In short, the mass of the American public will suffer from this system of corporate statism, from the death of the free price system, from the invasion of individual rights, from the hampering of growth, efficiency, and productivity, that the system will entail.

For now for the first time we have permanent peace-time controls. At least the World War II and Korean War controls, as bad as they were, were recognized as purely a wartime emergency expedient; they were not supposed to herald a new totalitarian economic system. But now we have such a system. And no organized group, left, right, or center, Democrat or Republican, liberal or conservative, has come out in principled opposition to the New Economic Fascism. The unions have already made it clear that they will accept the new system if they achieve their due share of power as junior partners in the tripartite control system. Presumably they will get their wish.

Far more important than the grave economic consequences of the new system are the political and moral implications. For where are our inalienable rights? By what conceivable right does the federal government dare to step in and tell free individuals how much they can agree to pay for goods and services? By what right does it step in to say that I cannot pay X-amount for a product or a service, or that someone cannot sell it to me for the agreed price. If two kids are swapping, for example, a penknife for two frisbees, how dare the government step in and threaten penalties or even jail if the kids do not exchange one penknife for one or for three frisbees - for this is what price control in essence means.

Even the price controls of World War II, moreover, exempted newspapers from the controls, because the government realized that price controls on newspapers implies a grave infringement on freedom of the press. But even the press is not exempt from the controls; does freedom of the press mean so much less nowadays?

There is also the Caesarism involved in the freeze by Presidential edict. If the President can simply go on TV and unilaterally declare an immediate freeze, then all of our liberties, moral, political, and Constitutional, are truly gone. If the President can do this, then he is truly another Caesar, another Mussolini, another Hitler; his power is then absolute. Is our Constitution completely forgotten? Are we going to put up passively with a slide into absolute Presidential dictatorship? And by what stretch of Constitutional finagling can the President freeze local rents? What gives him the power to freeze rents in a Peoria boardinghouse? Where is the "interstate commerce" here? Are there to be no restraints on the President's absolute power?

Already, a few law professors have spoken out against the new despotism. Four law professors at Catholic University Law School are bringing suit against the government to outlaw the freeze. And, in a trenchant letter to the New York Times of September 6, Professor Arthur S. Miller of George Washington University Law School warns that "Congress has abdicated its legislative function." He adds that

"no such sweeping delegation has ever been upheld (by the courts) outside of wartime . . . The war powers, furthermore, are not usable to uphold the delegation or the President's actions", or even the Economic Stabilization Act of 1970 itself. Miller also points out that the President acted secretly and in great haste, while Congress was out of session: "That is government by *fait accompli* - hardly in consonance with the spirit of the Constitution." Miller also points out that the government's abrogation of contractual wage increases after Aug. 14 "varies the obligation of contracts. It takes contract rights (property rights under the law) without paying just compensation required by the Constitution." Miller adds that "World War II and Korean War precedents, if that they are, are not controlling. The war powers are not a source of power here. Even if they were, Chief Justice Warren said in 1967 that they do not 'remove constitutional limitations safeguarding essential liberties.'"

Professor Miller concludes his welcome letter by warning that "President Nixon's declaration of national emergency can hardly add to his constitutional powers. It is part of a growing package of government by executive decree or fiat. The American people should be very sure that they want to travel much further down the perilous path of economic controls and executive domination."

Selective Controls

There are hints that the Nixon Administration, in a vain attempt to impose permanent price and wage controls without constructing a huge bureaucratic apparatus to run our lives, may try to impose "selective" controls on a few industries. One prediction is that controls may be imposed only on industries composed of large businesses. It is true that big businesses, being highly visible and in the public eye, are superficially easier to control than smaller firms. But "selective" controls, however selected, can never work for long. If, for example, the prices of automobiles are frozen, and the prices of the numerous parts that the auto companies buy from small manufacturers are allowed to rise, then clearly the auto firms will begin to suffer heavy losses. The pressure will then be great to extend the controls to the parts industries, and so on to the various raw material industries. Capital, furthermore, will begin to leave the frozen industries for the unfrozen. And if wages in big firms are frozen while those in small firms are allowed to rise, then obviously workers will begin to leave the former for the latter. Selective controls, in short, are soon found to be unworkable; they set up inexorable pressures either to remove the controls altogether and return to a free economy, or else extend the controls to the entire economy.

Wake Up America

And so fascism is here - and it doesn't even work. We have sold our birthright of freedom for a mess of inedible pottage. Our economic dictators should at least heed the warning of their predecessor, Field Marshal Hermann Goering. After his capture by the Allies, Goering stated: "Your America is doing many things in the economic field which we found out caused us so much trouble. You are trying to control people's wages and prices - people's work. If you do that, you must control people's lives. And no country can do that part way. I tried it and failed. Nor can any country do it all the way either. I tried that too and it failed. You are no better planners than we. I should think your economists would read what happened here." (Quoted in F. A. Harper, "A Just Price and Emergency Price Fixing," *Essays on Liberty, Volume II*, Irvington on Hudson, N. Y.: Foundation for Economic Education, 1954, pp. 198-99.)

With both political parties silent or enthusiastic about the new statism, and all the organized groups scrambling aboard to increase their share of the pie, there is only one way that we can be freed from this monstrous incubus of permanent price-wage controls. And that is if the American public itself takes a hand. Only the American public can break the new chains which our Caesar has forged. Only the American public can render the wage-price controls unenforceable, by "voting with their feet" in their everyday lives. But to do this, the public must be able to hear voices of opposition, voices who will raise the cry: "This shall not pass!"



"An autocrat's a ruler that does what th' people wants, an' takes th' blame f'r it. A constitootional ixicutive, Hinmissy, is a ruler that does as he dam pleases, an' blames th' people." --- Mr. Dooley.

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