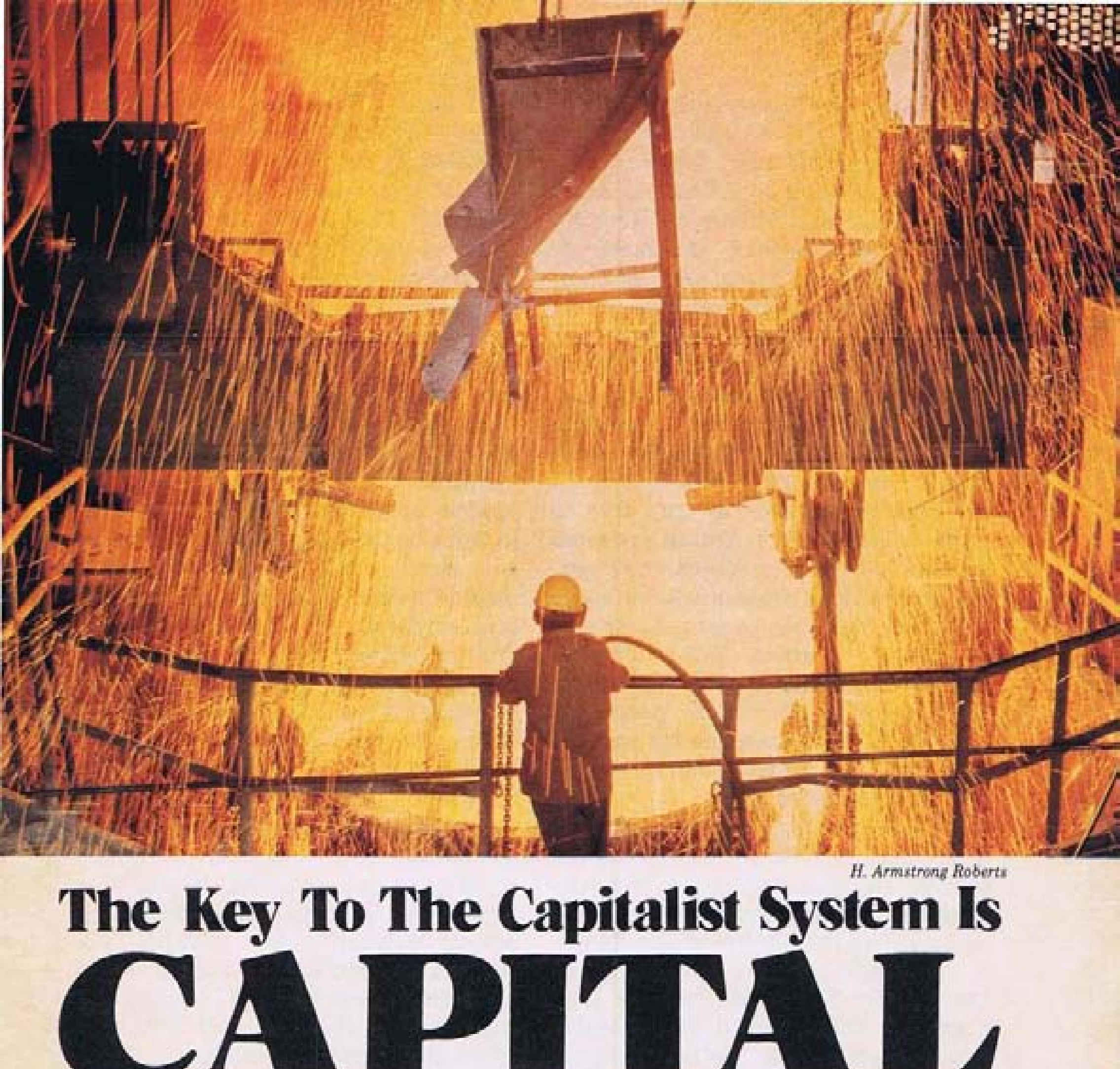

H. Armstrong Roberts

The Key To The Capitalist System Is CAPITAL

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■ OVER THOUSANDS of years, human suffering, starvation, back-breaking drudgery, famine, and pandemic illness were man's common lot. Suddenly there came into existence in the United States of America such material prosperity that we take for granted spectacular luxuries like safety razors, television sets, shower baths, electric lighting, central heating and cooling, automobiles, comfortable clothing, and full bellies. In less than a century and a half the general standard of living in America has become so high by comparison that we find it impossible even to imagine what life was like for ordinary people before the Industrial Revolution and the subsequent advances of our American capitalism during the Nineteenth Century.

Nothing like it had ever occurred in all human history. Born of the early Machine Age and the ideas of John Locke and Adam Smith, the United States became the most affluent nation on earth and, as Paul Harvey says, "the powerhouse of the planet." What was responsible?

The reason for this dramatic advance in prosperity was simply that people were for the first time free to pursue their own economic interests — free to save and invest in ventures which were in turn free to produce and market. And this process began to generate an increasing quantity of wealth to make available more capital in the form of more tools and machines — which led to further production satisfying the needs and wants of more and more people. It was capital accumulation for use in a relatively free market that has made this progress possible.

Dr. Howard E. Kershner describes in his book *Dividing The Wealth* the terrible living conditions of the precapitalist era, and explains how capital has elevated our living standards:

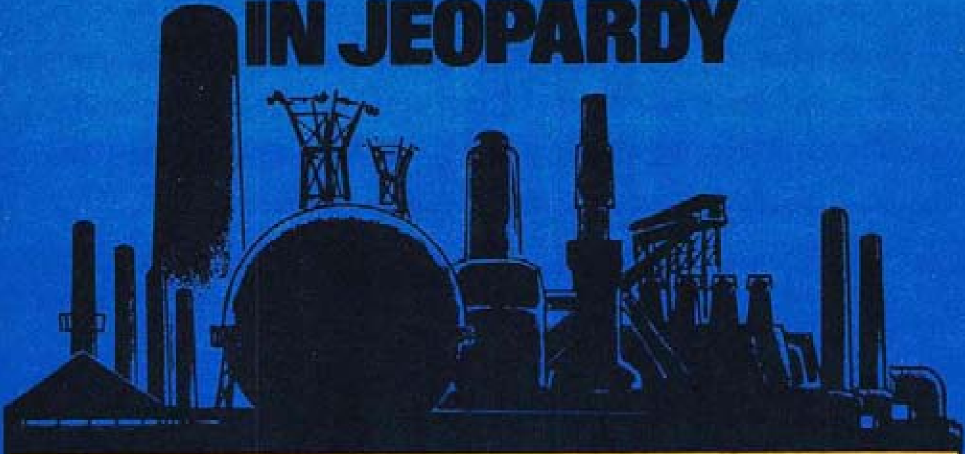
"Life was hard in Europe during the Middle Ages and the first two-thirds of the Modern Era, coming down to well after the beginning of the Industrial Age and the rise of capitalism. Indeed, it was the lack of capital that made life so hard. It is still very hard in most parts of the world and for the same reason — lack of capital. The Chinese coolie works so hard because he does not have power machinery at his disposal. The American workman accomplishes far more in fewer hours with less expenditure of energy because accumulated capital has provided him with excellent tools and power equipment. In primitive times human muscle supplied all the energy available to man in his efforts to wrest a living from nature. This has been reduced to less than five percent. A little is supplied by animals, but well over 95 percent of the power men use is mechanical. That's why the burden of crushing toil has been lifted from the backs of men and the scale of living so miraculously increased."

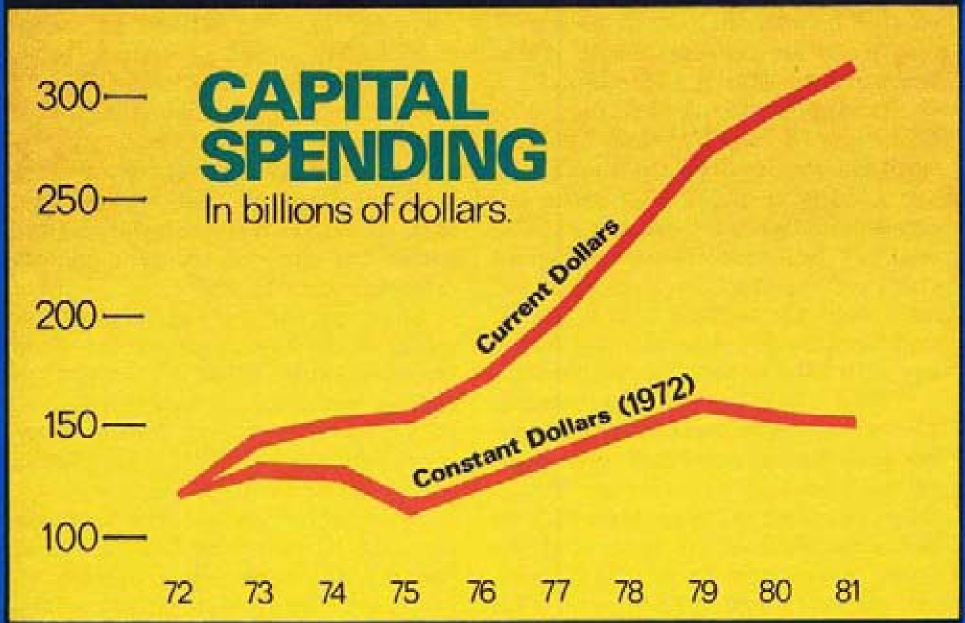
A man can obviously produce more with the right kind of tools than he can with his bare hands. Give him better tools, and he can produce even more. Capital is simply tools bought by accumulated savings. This creates wealth, and the wealth it creates can, in turn, be used to create more wealth with new and better tools. The standard of living of every country therefore depends on the amount and quality of capital it has accumulated through private savings and investment. Any nation whose people are willing to save and invest in more capital is headed for a higher living standard. And, as Dr. Kershner points out, "beliefs or practices that discourage the formation of capital or, even more tragic, that dissipate or destroy it, will drag downward any people toward more poverty." If freedom to profit and incentives to save are interfered with, capital formation will fail. Howard Kershner offers this significant warning:

"The accumulation of capital was painfully slow, but it finally relieved the horrible conditions existing in Europe down to a century and a half ago. There is grave danger that the process is now being reversed. Decapitalization results from wrong economic policies. Excessive taxation discourages the will to save. It penalizes our most productive men. The continued seizing of property by government not only stops progress, but will head us backward toward the unspeakable degradation and suffering which we have discussed in the preceding paragraphs."

Don Eckelkamp — American Opinion

AMERICAN INDUSTRIAL MIGHT IN JEOPARDY





Average Age Of Plant & Equipment

UNITED STATES	WEST GERMANY	JAPAN
16-17 YEARS	**12** YEARS	**10** YEARS

To liquidate a capitalist country you have but to stop capital accumulation. This has been done by taxing savings which are the basis for investment, and through inflation reducing the value of monies saved anyway. Now government has stepped into the money market to borrow 80 percent of long-term capital funds.

Yet we are told America is entering a "post-scarcity economy" in which progress is inevitable. We are assured that the problem of production has long since been solved. This is nonsense. Kershner explains why we will need even more savings for capital investment in new technologies if we are to continue to maintain our present living standards:

"In an arresting volume, *The Challenge Of Man's Future*, Dr. Harrison Brown develops the thesis that our industrial civilization arose because essential raw materials such as coal, oil, iron, nonferrous metals and sulphur, existed in concentrated form near the surface of the ground and were readily available for man's use with little expensive equipment.

"Now that readily accessible sources of these materials are nearing exhaustion, more and more capital is essential in order to obtain them. Since they are necessary for an industrial civilization, ways must be found eventually to get them from air, seawater, and igneous rock. This can be done, but it will require enormous capital resources. Very extensive equipment will be necessary to process vast quantities of seawater and granite.

"If decapitalization were to take place through large-scale war, excessive taxation or schemes for equalizing wealth, mankind would revert to an agrarian form of society. With fuels, minerals, and essential raw materials in concentrated form exhausted, a low-producing agricultural economy might not be able to accumulate the large amounts of capital necessary again to achieve an industrial society based on scarce, hard-to-get materials. In other words, if the motor stops, we might not be able to crank it up again, and our descendants might be condemned to back-breaking toil from sun till sun, such as our ancestors endured from before the days of recorded history down to recent times."

So investment for capital accumulation is the key to prosperity. And the question is: What is the status of capital formation in America today? In *A Time For Action*, former Treasury Secretary William E. Simon voices concern:

"It is incredible but true that over the past 20 years the United States has the worst record of capital investment of any major industrialized nation in the world. Since investment is the key to productivity — which must improve if our standard of living is to increase — this shortfall affects our ability to compete, not only in global markets, but in our own. And without sufficient investment, there cannot be jobs for our

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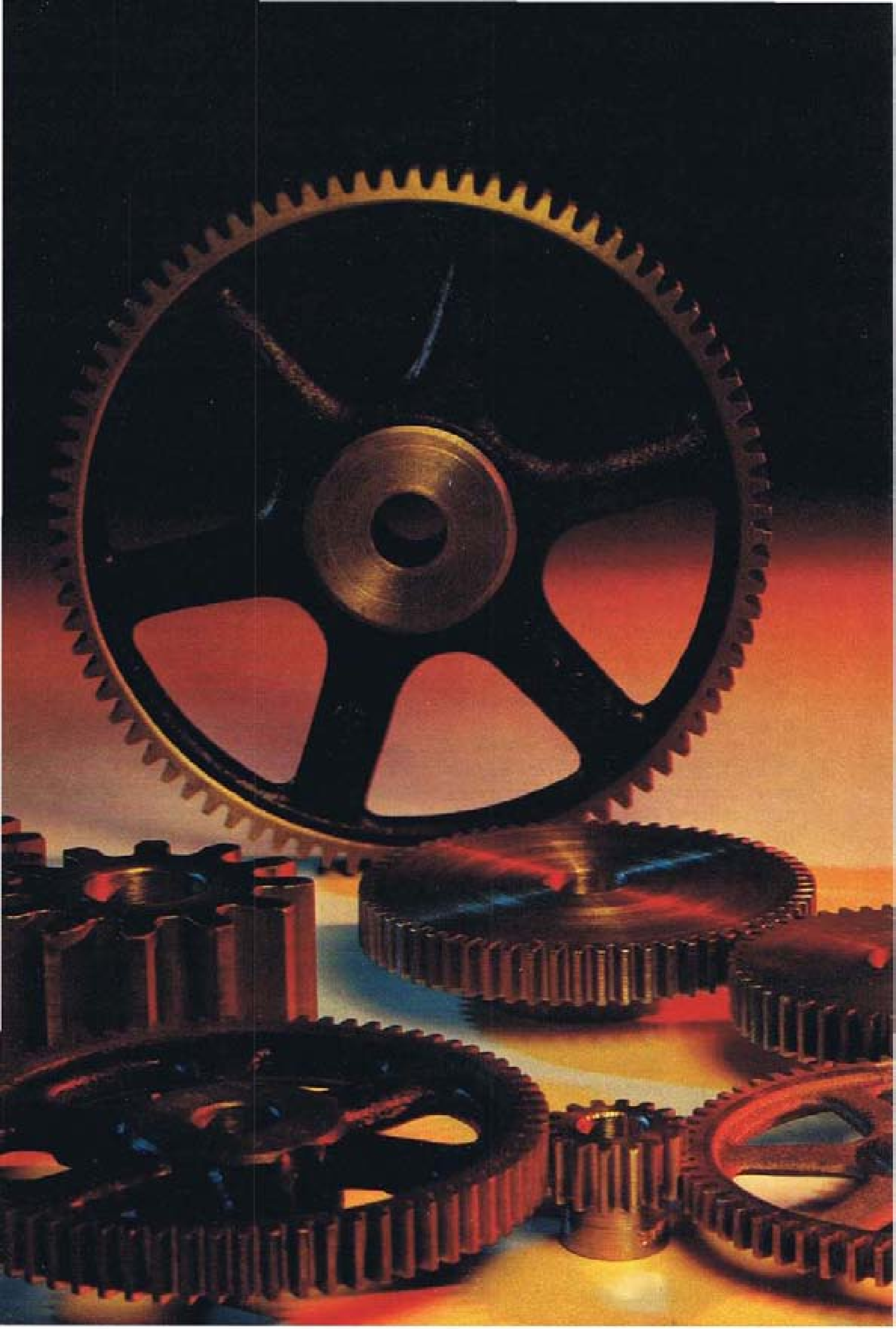

growing labor force — or for our children.

"Steel is a good example. In 1955 we exported more steel than we imported. But sweeping government regulations and de facto price controls affected investment and productivity so adversely that between 1964 and 1977 our growth in output was exactly zero. The Japanese, meanwhile, have increased production by an average annual rate of 14 percent. Markets, profits, and jobs for American steel are disappearing: 100,000 jobs for U.S. steelworkers were lost in a single decade.

"Multiply that record across a host of other industries and you have some idea about the frightening nature of our problem. Key aspects of our economy are grinding down to zero, while rampant inflation pushes money prices toward stratospheric levels. The projected outcome is a declining standard of living, the continued loss of jobs, more government intervention, higher inflation, and the ultimate prospect of financial panic and collapse."

John Carson-Parker writes of "The Capital Cloud Over Smokestack America" in the February 23, 1981, issue of *Fortune*. Observing the deteriorating balance sheets of heavy-industry corporations, he says "the liquidity ratios and interest burdens of many corporations have reached levels that cause bond-rating agencies and long-term lenders to look at these companies askance. Even more foreboding, inflation rates have got so high and interest rates so volatile that lenders are increasingly loath to lend long term, period. The result is that corporations that cannot sell stock will find it extremely difficult to raise any external long-term capital at all."

Funds for the crucial activity of capital investment have been increasingly siphoned out of our economy by Big Government through inflation, federal borrowing, and taxation. As an increasing number of Americans are beginning to understand, inflation is an increase in the money supply and occurs whenever the Federal Reserve "monetizes" (turns into new money) part of the accumulated deficits incurred by the federal government. The Fed increases the money supply to pay for its purchase of federal securities — pieces of paper representing a certain amount of the government's Debt, which are used as the base for spinning out more money and credit. The new money put into circulation to meet the deficit then begins to bid up prices and the purchasing power of our savings is reduced accordingly.

Alternatively, government will itself enter the private capital market and meet its deficit by borrowing savings that would normally be used by private investors to expand production through improvement of tools, plants, and the like.

Meanwhile, taxation and inflation are at once discouraging and destroying the savings of millions of Middle Americans — the backbone of our society. These savers lend their hard-earned money to banks, savings and loan institutions, insurance companies, and the government — hoping for a safe rate of interest in return. When they don't get it they save less.

The interest paid on the average passbook savings account is dramatically less than the rate of inflation, and has been for some years. For example, according to Congressman Philip Crane (R.-Illinois), "Interest on \$100 placed in a typical savings account for a year would bring the balance to \$105.75. Inflation, at 13%, reduces the account's real buy-

(*Continued on page seventy-seven.*)

From page six

CAPITAL

ing power to $92.75. Savers also are taxed on the $5.75 interest which reduces average purchasing power to $90.95 — a total loss of $15."

Even with the higher-interest certificates of deposit, you still lose when you try to save. Let's assume you earn fourteen percent interest on a bank C.D. Even if we assume an inflation rate of only thirteen percent, this means that, after deducting for the loss in purchasing power, your gain comes to only one percent. On top of that tiny profit, however, is the tax you are forced to pay on the entire fourteen percent interest. If you are in the twenty-five percent tax bracket, you must pay out to government 3.5 percent of your gross earnings. You are actually suffering a loss of 2.5 percent!

Note in the above example how the effect of inflation greatly multiplies the destructive power of the income tax. If your actual net profit is only one percent due to price inflation, and you're forking over 3.5 percent of the gross earnings in taxes, your true tax rate is actually 350 percent!

"The way to crush the bourgeoisie," observed Lenin, "is to crush them between the millstones of taxation and inflation."

One can hardly be surprised that Americans are beginning to wake up — and are taking their money out of savings accounts (where they are guaranteed losers) and putting it into federal T-bills, short-term money-market funds, gold and silver coins, or all of the above. In fact savings in America have reached an all-time low, drying up investment money for the capital that business needs to replace old plants and create new jobs. The truth is that the savings rate in the United States has been cut in half over the past ten years.

William Simon tells us in *A Time For Action*: "Over the past two decades, the United States has brought up the rear among industrial nations in percentage of Gross National Product held as personal savings. From 1973-77 other industrial nations were saving between 10 percent (Canada) and 25 percent (Japan) of GNP. During that same span, the United States saved only 6.7 percent, and in the past year the savings rate has fallen as low as 3.4 percent.

"All investment comes directly or indirectly out of somebody's savings — either private or business — and U.S. investment rates have predictably declined with the fall-off of personal savings. In the period 1962-78 the United States ranked dead last among eight major industrial nations in average investment as a percentage of GNP. Our average rate was 17.5 percent, barely more than *half* the Japanese rate of 32 percent. Unsurprisingly, in view of this much higher investment rate, the Japanese have three times our rate of productivity increase and a 137 percent higher rate of growth for GNP."

Because of inflation, the traditional methods of saving and investment are giving way to the more attractive games of speculation — and this too is reducing our capital base. Another factor aggravating the situation arises out of a complication in the relationship between federal deficits and the expansion of the money supply. This involves the *percentage* of the National Debt which is "purchased" and held by the Federal Reserve. Only *part* of the accumulated federal red ink is financed by the process of legal counterfeiting. The rest, as we have noted, involves borrowing. Writing in the February-March 1981 issue of the Bank of Hawaii *Monthly Review*, economist Wesley H. Hillendahl explains that the extent to which federal Debt is monetized by the Fed has actually decreased over the last twenty years. During the period of 1960-1965 the Federal Reserve monetized 58.1 percent of the total deficits. During the next period, between 1965 and 1970, the Fed monetized about half the amount of these deficits. During the next five-year period, only 24 percent of the Debt was turned into fiat money. And between 1975 and 1980 only 13.8 percent was financed by inflating the money supply.

Because the Fed dares not monetize as large a share of the government's Debt as it once did, the U.S. Treasury has had to go into the private sector and borrow the money to finance the rest of its red-ink operations. This borrowing to pay for the unmonetized portion of the federal deficit has been immense — and is "crowding out" private demand for funds, absorbing resources that would otherwise be used for either private consumption or urgently needed productive capital investment.

Federal spending, whether paid for by taxes, inflation, or borrowing, steals hundreds of billions of dollars out of the U.S. economy. And the larger the National Debt becomes, the more the government has to inflate or borrow. Federal borrowing in this Fiscal Year alone will soak up the enormous sum of $150 billion in capital!

This is the major reason for the high interest rates we are experiencing, and why the long-term trend for the prime rate is up, up, and away. Interest rates will soon reach new highs — some say between twenty and thirty percent — as a result of panic borrowing by increasingly illiquid corporations, beleaguered small businesses, and consumers who must have emergency funds to forestall bankruptcy. All this, along with huge amounts of federal borrowing to cover the unmonetized parts of its Debt, will contribute to record highs in demand for credit — over $412 billion in 1981, according to Henry Kaufman of Salomon Brothers. The resulting very high interest rates will certainly sink the unstable bond market even deeper than its crash of last year — and possibly trigger a monetary panic that could threaten our precariously debt-ridden economy.

As Robert W. Lee noted in the April American Opinion, when Congress voted to raise the National Debt ceiling, it was warned by Representative William E. Dannemeyer (R.-California) about the damage federal borrowing does to our economy. Dannemeyer pointed out:

"Federal borrowing to finance the deficit, the trust fund surpluses, and federally assisted credit activities — which will be increased with the passage of H.R. 1553 — siphons off funds from the nation's credit markets. From 1968 to 1970, according to testimony by OMB Director David Stockman, the average borrowing of the Federal Government from the public was 8.9 percent of all funds in credit markets during that period. But in the period 1978-1980, direct Federal borrowing, by comparison, accounted for 14.6 percent of all funds raised in credit markets. In addition, when federally assisted borrowing is added to the 14.6 percent figure for 1978-80, the combined impact reaches 26.6 percent of all funds raised in credit markets.

"This reduction in the supply of credit market funds, all other things equal, has an upward pressure on interest rates. Unemployment goes up because of the downward impact of high interest rates on interest-sensitive industries such as housing, automobiles, and consumer durable goods generally. The higher unemployment results in greater Federal spending, less revenue, a larger deficit, and the cycle begins all over again."

So every time Congress raises the National Debt limit it results in greater deficits which must be paid for by either monetary inflation through the Fed (which pushes up general prices and reduces the propensity to save for capital investment), or by the government borrowing in competition with business (which pushes up interest rates and starves the private sector of desperately needed capital). Congressman Dannemeyer is correct in observing that "fewer funds available in credit markets due to Federal borrowing leaves less financial capital available to the private sector for the purchase of the physical capital needed to improve plant and equipment. Failure to so modernize reduces our already negative net increases in productivity. Lower productivity adversely affects both inflation in the long term, and our ability to compete effectively in world markets."

Little wonder that other countries have been outproducing the U.S. in several important industries because of their higher rates of saving and investment in new capital. Their products are being bought in other countries, including the United States itself, instead of our own American products. In addition to steel, U.S. industries such as textiles and automobiles have also fallen well behind.

Take the big U.S. auto manufacturers. It is no secret that they are being choked by competition with imported cars from Japan and Germany. But instead of working for reduction of the enormous burden of regulations, taxes, and the government drain on capital that is responsible for this state of affairs, spokesmen for the auto industry have cried to Big Government for import restrictions to deny American consumers the opportunity to buy Japanese cars at prices they are willing to pay. Meanwhile, U.S. companies still holding their heads above water cannot easily get loans for improvement and expansion to meet and beat the competition.

With our steel and auto industries both suffering the consequences of Big Government, the American economy is in big trouble. Should these problems continue, the U.S. might evolve into a technology- and service-oriented economy rather than one of heavy manufacturing and industry. As Lewis W. Bernard, managing director of Morgan Stanley & Company, puts it: "Our comparative advantage is in electronics and semiconductors and in the service industries, and you're going to see, for the first time, a lot of those companies having huge requirements for external capital."

In other words, the U.S. economy is undergoing a transformation because of the redirection of capital away from the traditional heavy industries into newer areas which require less capital to operate in competition in world markets. But, as Bernard points out, even though the service industries require less capitalization compared to steel and autos, their capital needs will also greatly increase over the next few years.

Another potential problem is that, because of the rigidities in our economy imposed by federal regulations and controls, the transition period will be much rougher in terms of unemployment and business closings than it would if labor, capital, and resources were more free to move from the older areas of production into newer ones. Already U.S. inefficiency in world market competition has resulted in loss of employment and a reduction in wealth. *Business Week* has estimated that this decline in American economic clout during the last decade meant loss of $125 billion in production and over two million U.S. jobs. The key is savings for capital investment.

In May of 1975, Treasury Secretary William Simon testified before the Senate Finance Committee about the state of the U.S. economy. Here is what he said about capital investment and national productivity:

"By 1974 retained earnings fell to a record level of minus $16 billion as companies devoured their own seed corn. The government was usurping funds needed for private investment. Approximately 70 percent of the long-term capital funds available in private money markets was being borrowed by the Federal government, and 80 percent by government at all levels. Capital investment was falling far short of that required for long-overdue plant expansion and technological innovation. From 1960 through the early 1970s, private investment in the United States averaged less than 18 percent a year of our GNP."

Since a nation's productivity depends on capital investment and private savings, it was that declining rate of capital formation which resulted in our long-term drop in productivity. As Simon said: "Productivity growth — heavily influenced by investment in new plants, equipment, and technology — was declining rapidly. Between 1948 and 1954 output per man-hour had increased by 4 percent annually. Between 1956 and 1974 the increase had dropped to 2.1 percent. And between 1970 and 1974 the increase was only 1.6 percent. Since 1960, of the eight major industrialized nations, the United States has ranked last in productivity growth."

More recent figures, unfortunately, indicate no reversal in this disastrous trend. The growth in productivity slowed to one percent in 1977 — and then to a mere 0.3 percent in 1978. In 1979, productivity actually declined by 0.9 percent. It rose by only 0.3 percent for 1980. According to the Bureau of Labor Statistics, productivity increased by 3.9 percent during the first quarter of this year, and there are some signs indicating that because of hope that the new Administration will free the producers to produce and cut inflation, productivity for the next year or two will stay in the black. However, the fundamental problem of savings and capital investment remains.

Although American companies have more than doubled their dollar expenditures for capital since 1972, when adjusted for dollar depreciation due to inflation our over-all capital investment has gone up very little. The estimated average age of plant and equipment in the U.S. is now about seventeen years, as compared to twelve years for West Germany and ten years for Japan.

The fact that our anti-business tax laws do not permit firms quickly to recoup long-term investments has led corporate leaders to concentrate on short-term and medium-term projects which do little to improve productivity. Because of this, and the federal Treasury crowding private borrowing in the capital markets, corporations have had to place more and more emphasis on short-term debt instead of long-term bonds for financing.

Still some Establishment sources claim the crisis in capital and productivity is easing. *Fortune* says that "the worst is over, and the good news is that productivity will turn up this summer, achieving a 1.5 percent annual growth rate into 1982." *Forbes* says you can "put away the worry beads" regarding the debt markets. Business confidence in President Reagan's plans for "economic renewal" and "reindustrialization" seems to be causing a bull market on Wall Street. The Administration has already followed through on its promise to lift some of the social and environmental regulations on business. Also, observes *Forbes*: ". . . the pro-thrift bias in the Reagan tax proposals — lower taxes on interest and dividend income and capital gains, plus more liberal depreciation — are likely to encourage capital investment. With more and better machinery behind every worker, output per man-hour will improve gradually."

This optimism assumes that the Reagan tax-rate reductions and other pro-savings measures will be passed intact by Congress, and also that the package will stimulate savings and investment as much as supply-siders hope. But there is still considerable opposition to what demagogic "Liberals" are calling "tax cuts for the rich." Never mind that tax cuts on the high-income side are the quickest way to encourage needed savings for investment. Tax cuts for those without surplus will not result in savings to accumulate capital. As George Gilder puts it in his well-publicized book *Wealth And Poverty*:

"The risk-bearing role of the rich cannot be performed so well by anyone else. The benefits of capitalism still depend on capitalists. The other groups on the pyramid of wealth should occasionally turn from the spectacles of consumption long enough to see the adventure on the frontiers of the economy above them — an adventure not without its note of nobility, since its protagonist families will almost all eventually fail and fall in the redeeming struggle of the free economy . . . . That is the function of the rich: fostering opportunities for the classes below them in the continuing drama of the creation of wealth and progress."

What Gilder does not stress in his book is that savers and investors have a *right* to their profits and interest; that they are *justified* in pursuing their self-interest as long as they do not invoke government intervention or use force or fraud against others. Once the morality of seeking personal gain is established, economic analysis shows that in a Free Market private profits benefit everyone else in society as well as the profiting individual. This is not widely understood, however. According to a recent survey of high-school students by the U.S. Chamber of Commerce, sixty-seven percent see no need for profits, sixty-two percent think that the government should provide jobs, forty percent could not name one advantage of capitalism over Communism, and fifty percent believe that *government* contributes most to national prosperity!

Such ignorance of the way in which our economic system works has permitted demagogues to attack capital accumulation. But the Reagan Administration seems to be fighting back, and the long-term economic education programs of Conservatives have produced a mood in Congress that could force reform. Nonetheless, even if the Reagan cuts do pass, it will take at least a year before any salutary effects will be felt in terms of capital accumulation and productivity. The question is: Will this be soon enough to avert economic calamity?

The next few years will be very perilous for the U.S. economy. A tight credit squeeze is clearly in the offing. *Newsweek* points out that "if the Federal deficit for 1982 turns out to be much larger than the $45 billion Reagan's budget makers predict, and many private economists think it will, business could be squeezed out of the capital markets by government borrowing." When the prime rate goes shooting up above its previous highs, you will know that the squeeze is here.

What could sharply higher interest rates do to our over-extended economy? Writing in his January first issue of *Ruff Times*, economy-watcher Howard J. Ruff observes:

"We have indications that the Nation's savings institutions are coming under severe stress, and if this economy turns into a downhill avalanche, as I think it will, we could see a scary upheaval in that industry. The big savings banks in New York, for instance, have very serious problems. Their $1.9 billion in capital would seem adequate, but much of it is in financial holdings that are devastated, pricewise, by rising interest rates. The cost of new deposits has them losing money, eating into that capital.

"Remember that when interest rates go up, the market values of bonds, CDs, mortgages, *etc.*, go down. And what appears to be adequate capital, if marked down to fair-market value, is a heck of a lot less adequate than the numbers would indicate."

Meanwhile, corporate accounting methods which do not take into account the effect of inflation on corporate earnings actually overstate profits. In his new book, *Survive & Win In The Inflationary Eighties* (Target Publishers, San Ramon, California, 1981), Howard Ruff explains how inflation and taxation are liquidating many U.S. firms:

"When a corporation makes a profit, it pays corporate income taxes and dividends out of those earnings. If it doesn't have profits, but continues to pay dividends and taxes, the money must be paid out of capital. There is no other source. If it continues to pay out dividends, without sufficient earnings, the company is liquidating its capital. Of course, no well-run business would do anything so stupid. Right? Wrong! Many of America's great corporations are in quiet liquidation, just like American savers and pension plan owners."

Ruff then explains how — in a non-inflationary time — the depreciation allowance works to provide a tax break to firms so they will have enough money left over after taxes to replace worn-out plant and equipment. But, he warns, "when inflation drives up the costs of replacement, and the depreciation allowance is not sufficient to generate enough tax savings to pay for replacement, in reality the earnings of that corporation have been overstated, because truly adequate depreciation allowances would have reduced profits. Taxes are then computed on the overstated profits and the government takes its tax bite out of those nonexistent earnings. But that's only the beginning of our liquidation story.

"Most corporate tax accounting is on the 'accrual' basis. This means that the corporation doesn't just report cash transactions; the earnings will also reflect purely inflationary increases in the market value of the inventory on the shelves. Actually, falling sales could have given you an operating loss that was draining your cash and you would still show taxable earnings, if the inventory has increased in price due to inflation, despite the fact that even when that inventory is sold, the company will simply have to replace it at even higher prices . . . .

"The combination of inadequate

depreciation, plus inflated inventory profits, means many American corporations are not producing sufficient 'real' earnings to cover their taxes and the dividends they are paying out to stockholders. If the corporation has no real inflation-adjusted earnings, it is paying taxes and dividends out of capital and surplus, and is in the process of liquidation to the government and to its stockholders."

Inflation also multiplies the destructive power of capital gains taxes. Mr. Ruff illustrates as follows:

Let's say you bought some land two years ago for $100,000 and you sold it today for 130,000. The capital gains tax on the $30,000 'profit' would be approximately $7,500, depending on your tax bracket, theoretically leaving you with $22,500 in after-tax profits. However, the true profit on that transaction was not $30,000. Look again. Two years of land price inflation around 15%, about the same rate of increase as all costs throughout society, accounted for the whole $30,000 profit. If the whole nominal gain was general inflation, then you had no true profit. Your capital gains tax of $7,500 means that the tax rate on your nonexistent gain was not 25 percent, but was infinite. It was a confiscatory liquidation of your capital."

Howard Ruff suggests that American corporations are, in effect, being quietly "nationalized" by the government. He writes: "Suppose the United States government suddenly announced that all American corporations were immediately to hand over to Uncle Sam 77% of their outstanding stock. Of course, that would cause a revolution. In my opinion, the exact same thing has already happened through the taxing process, but poor Boobus Americanus isn't aware that it has happened, and Merrill Lynch is still 'bullish on America.' When Uncle Sam and his bureaucratic or elected officers complain about 'obscene corporate profits,' it's got to be all for show, because the principal beneficiary of American corporate profits is government."

For instance, while Reagan did the right thing when he lifted price controls on oil, the Windfall Profits Tax passed during the Carter regime will soak up billions in profits that could otherwise go to capital accumulation for expanding the energy industry and reducing the price we pay for petroleum products.

Then there is the tremendous regulatory hassle imposing further unnecessary costs. Neland Nobel, the astute editor of the *Client Advisory* of North American Coin & Currency, tells us that many businessmen are now selling out rather than put up with the regulation jungle. "What money they were able to raise in the capital markets is not allocated to new plant and equipment; it must be used to fight regulations, E.P.A., O.S.H.A., *etc*," he explained. Nobel confirms our view that Big Government is the culprit in drying up capital: "Anything that is taken in any form of taxes means it's not going into savings . . . . The amount of new capital raised from private savings and retained earnings is being outstripped by the interest that must be paid on the National Debt alone!"

When we asked him if he thought "crowding out" in the credit markets would squeeze interest rates back above twenty percent within the next few months, Neland Nobel replied that he didn't think so — noting that the prime interest rate is not a Free Market phenomenon but can be manipulated by the Fed. Chairman Volcker and his friends at the Fed can hold down interest rates artificially for long periods of time, as was done throughout the 1970s when the prime was lower than the inflationary rate. Mr. Nobel observed:

"What the Fed will do is accommodate — it will monetize large quantities of the government debt so the government will not have to borrow in the credit markets. This will keep interest rates from driving up dramatically. Cheap money has been the traditional liberal tool for stimulating the economy. Look, sixty percent of the savings and loans are operating in the red. A lot of these folks can't even make it at these current rates of interest. If we had a thirty percent rate of interest, I think we'd see some massive failures. You've got Ford, Massey-Ferguson, Braniff, Chrysler — you could probably name half a dozen other corporations — that are on the ropes. This would bring big political problems. If I were a political planner in the White House, I'd hate to go into the 1982 congressional elections with massive unemployment."

In other words, to avoid widespread bankruptcies and a deflationary economic collapse the Establishment will further inflate the money supply. And the machinery for this is now available through the so-called Monetary Control Act of 1980 (see my article on the banks in the May 1981 AMERICAN OPINION). But this will only temporarily postpone the collapse.

By "economic collapse" I mean that when price inflation and/or unemployment are high enough the normal functioning of the general economy in this country will break down — and we will find ourselves in stagnation. This occurs when a sick economy tries to get well by throwing off the bad investments and economic distortions caused by the government's policies of inflation and meddling. And the more regulations and controls the government has in place over the economy, the longer this readjustment period will last. The popular term for it is Depression.

Historically, Depressions following a long-term inflationary period have been deflationary; prices, wages, and interest rates have gone down while unemployment has risen. In the Great Depression of the 1930s, the eighty percent of the work force which was able to hang on to jobs lived reasonably well. Wages were low — but hamburger was a nickel a pound. Unfortunately, the Depression of the 1980s could be much worse since it is likely to be inflationary rather than deflationary. An inflationary depression could wipe out almost everyone whose assets are in dollar-denominated bank accounts, pension funds, or insurance programs. That is, it could *destroy* our system of capital accumulation.

Of course, the Establishment economists have taught students for decades that their policies have made Depressions impossible. It is, in fact, the Keynesian policies which have made such an economic calamity inevitable; and, if an inflationary depression does occur, you will be glad you put some of your wealth in gold and silver, as well as in such real goods as storable food and basic tools.

The enemies of Free Market capitalism long ago saw our money as capitalism's Achilles' heel. Along with the progressive income tax and government control of the schools, Karl Marx's *Communist Manifesto* called for a central bank for developed nations. Central banking, far from being an institution of *laissez faire*, was seen by conspirators as a socialist mechanism for subverting and taking over a nation's economy. After all, the Federal Reserve did not spon-

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taneously arise in a free market; it took an Act of Congress, an act of political intervention, to create it and grant it special powers over money and credit — monopoly privileges it could not get in a free market. The fact is that socialism has always been a front operation for cliques of would-be monopolists in the style of banker David Rockefeller.

Communist revolutionary V.I. Lenin, like Marx, saw capitalism's vulnerability to inflation and is quoted as having said: "The best way to destroy the capitalist system is to debauch the currency." Evidently a student of Lenin, Fabian Socialist John Maynard Keynes used almost the same language when he wrote: "There is no subtler, no surer means of overturning the existing basis of society [i.e., *capitalism*] than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner in which not one man in a million is able to diagnose."*

Since Lord Keynes and his economic disciples were responsible for the disastrous inflationary policies of the U.S. Government in recent years, it is hard to believe they did not do what they did for the conscious purpose of destroying our capitalist society.

The false monetary and credit policies pursued by Western nations since the end of World War II have put the economies of all industrialized countries in a highly unstable and precarious position. There is no hope for a soft landing. The process has gone so far that anything we do now will produce unpleasant consequences. The government's "solution" will most likely be to bail us out of an impending depression with the Federal Reserve's "printing press" and, in so doing, bring on hyperinflation that will destroy capital accumulation. But whether we are in for a classic deflationary depression, or a runaway inflation, the loser could be what's left of America's system of Free Enterprise. You can't have capitalism without capital — and you cannot accumulate savings to build capital — amid runaway inflation with every productive enterprise regulated and taxed to its knees.

Central banking and the inflationary policies of Keynesianism are leading us into a staggering liquidity crisis which could topple many of America's financial institutions in the next few years. Meanwhile, as our capital base is eaten away, our standard of living will plummet due to lowered productivity.

The decision Americans now must make is to reverse these trends, by taking taxes and regulations off of savers and investors, and to begin to dismantle the inflation machine by abolishing the Federal Reserve System and all legal tender laws, permitting the market again to establish a gold and silver money system. The alternatives to our taking such action are bankruptcy, poverty, and dictatorship. ■ ■

*"The Economic Consequences Of The Peace," in *The Collected Writings Of John Maynard Keynes*, Volume 2 (London, Macmillan for the Royal Economic Society, 1971, Page 149).

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■ The hardest people to convince that they are at the retirement age are children at bedtime.

■ The poor are a gold mine, says Thomas Sowell, the economist. By the time they are studied, advised, experimented with, and administered, the poor have helped many a middle-class "Liberal" to achieve affluence with government money.