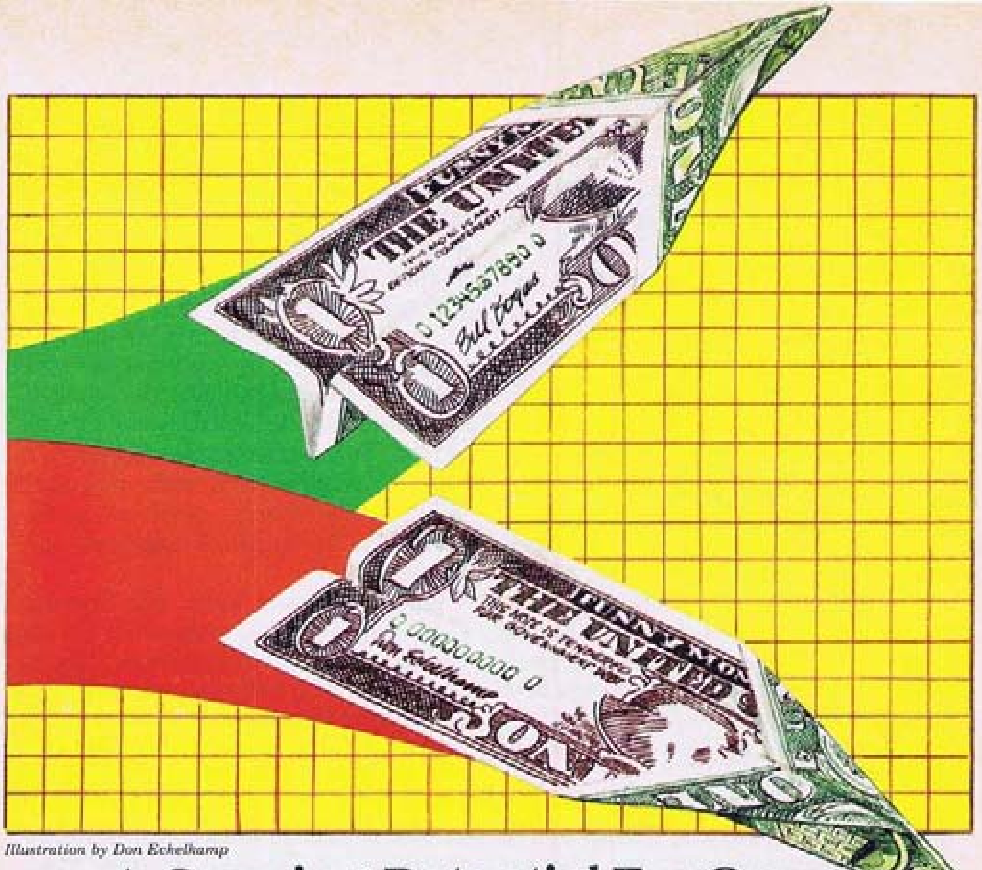

Illustration by Don Eckelkamp

A Growing Potential For Grave ECONOMIC DISASTER

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■ INCREASINGLY, Americans are beginning to face the fact that we are headed toward some sort of colossal economic debacle. Our nation is sitting on several political timebombs — any one of which could explode and initiate a financial collapse. These crises include the instability of the international monetary situation, the bankruptcy of our Social Security system, the growing liquidity problem among our financial institutions, the general scarcity of capital urgently needed for expansion and plant replacement, price consequences of runaway federal deficits, and crippling interest rates. These problems have been building for years, and recent Administrations have tried to cover them up, stave them off through stop-gap measures, and juggle them in the desperate hope that none will explode before the next election. Together they constitute one Big Crisis of mammoth proportions.

At the root of this potential calamity is *Debt*, resulting from deficit spending by Big Government. How this Debt is dealt with will ultimately determine whether the coming explosion of the Big Crisis will be inflationary or deflationary.

Deflation results in erasing Debt by default, paying back only a fraction of the amounts due creditors. Inflation, on the other hand, erases Debt by depreciating the currency, paying back only a fraction of the purchasing power of what was originally borrowed. The battle over how to extricate ourselves from this Debt burden will be between the forces of deflation and inflation.

Over the past few years there has been a running debate, mainly at the monetary conferences, over whether the next big economic bust will be a classic deflationary depression like the one of the 1930s, or one characterized by runaway inflation such as occurred in Germany in 1923. In the past, depressions following long-term inflationary periods have been deflationary: prices, wages, and interest rates have gone down while unemployment has increased. In the Great Depression of the 1930s the eighty percent of the workers able to hang on to jobs lived reasonably well. Wages were low — but hamburger was a nickel a pound. The purchasing power of the money was high — for those who had any. Unfortunately, the depression of the 1980s could be different — and worse.

Previous depressions occurred when the country was still on some form of gold standard, which limited the extent of inflationary credit expansion that could take place before the general market purged itself through readjustment. Today we are no longer on any semblance of a gold standard. The dollar is backed by nothing. The basic monetary problem is that, in the world today, control over money and credit is in the hands of national governments or central banks chartered by national governments — in other words, this control is exercised by politicians, giant banks, and bureaucrats. Never before in history have such powerful inflationary forces been so completely in the hands of monetary authorities.

In his explosive book, *The Coming Currency Collapse*, Jerome F. Smith describes the consequences of an inflationary depression as follows:

"In real terms, an inflationary depression is indistinguishable from a deflationary depression. In both cases production and incomes decline in real terms; in both cases liquidity problems proliferate; in both cases widespread bankruptcies occur. The distinction between a deflationary and an inflationary depression is this: in a deflationary depression, production, incomes, and living standards generally decline both in real terms and in nominal money terms; in an inflationary depression, production, incomes, and living standards generally also decline in real terms while at the same time all of these show increases in nominal money terms."

Put another way, it means you could have plenty of official "money," might even be a millionaire in terms of that money, but a Big Mac might cost you a hundred dollars.

An inflationary depression could wipe out almost everyone whose assets are in dollar-denominated bank accounts, pension funds, insurance programs, or long-term government

At the root of our economic troubles is Debt, resulting from ruinous deficit spending by government. Now the Fed can either hold down the money supply and plunge the economy into massive unemployment and a deflationary depression, or "monetize" the Debt, sending inflation into orbit and destroying the dollar.

bonds. It would mean the total collapse of the paper dollar. If the monetary system were to collapse entirely, with no one willing to accept the obviously worthless currency, normal exchange in the marketplace would come to a screeching halt. Since prices, contracts, and obligations of all kinds are denominated in dollars, and since dollars would be worthless, the underpinnings of modern society would disintegrate. Production would be disrupted. The general standard of living would plummet. Chaos would reign.

There would quickly come a time when exchanges could occur only on a barter basis, such as trading a loaf of bread for a gallon of gasoline. However, as Harry Browne has observed, "precious little bartering can take place [*on a large scale*] for it's practically impossible for a large company to employ thousands of workers on a barter basis. So who will produce the loaf of bread or the gallon of gas? After current supplies have been exhausted, only what's been hoarded in advance can be bartered."

Eventually, barter can evolve where exchanges become more frequent and long-term. Commodities immediately in high demand for barter purposes would include foodstuffs, tools, liquor, spare parts, and the like. The most barterable commodities would, however, be silver and gold coins. But re-emergence of sound money would be likely to occur only after a slow and painful readjustment in the aftermath of runaway inflation.

As readers of this magazine know very well, inflation is the official counterfeiting of money by a government. Every government in the world is now issuing counterfeit currency — bills not fully backed and redeemable in what the world market has always chosen as real money — silver or gold. Inflation occurs when the deficits of the central government are financed by the creation of new, not-so-funny money. This happens when the Federal Reserve magically "buys" government Debt certificates by simply making computer or bookkeeping entries showing additional deposits credited by the U.S. Treasury. The Treasury then puts this new counterfeit money into circulation as it writes checks against the phony deposit which was created out of thin air by the Federal Reserve. The more federal Debt the Fed "buys," the more new money is created. The greater the Debt, the greater the potential for monetary inflation.

Jerome F. Smith, a pioneer in the hard-money cause, insists: "There

The Reagan reforms are not tough enough to prevent economic collapse. The true Budget deficit for Fiscal 1982 will be $175-200 billion and government continues to get fatter. What is needed are $100 billion in federal spending cuts, monetary reform, and the election of movement Conservatives to Congress.

are three basic factors which will make hyper-inflation inevitable by 1987 — or even sooner. These are runaway federal spending, runaway federal debt, and the export of U.S. domestic inflation overseas."

Both federal spending and deficits are even now at record highs. The Reagan Administration has already released preliminary estimates showing that the 1982 Budget deficit will be at least $109 billion rather than the $42.5 billion for which it had originally hoped. At least some of this red ink will have to be paid for with inflation, by the Fed "monetizing" substantial sums of this Debt. And, because the Yankee dollar is the reserve currency to which virtually all other currencies in the world are linked, our inflation becomes everybody's problem. Smith explains:

"Foreign central banks built up huge dollar reserves when the dollar was still officially redeemable in gold. After 1971, they felt compelled to support the dollar — in order to maintain the value of their reserves. Today the scariest thing of all is that, for the first time in history, we have the potential for a *worldwide* hyperinflation. During past hyperinflations, it happened to one, or two, or three nations at a time. But now the U.S. dollar is, in effect, a global currency. It's the major currency used for international trade; it's the major reserve currency held by the central banks of most nations. When the U.S. dollar is hyperinflated, virtually all other national currencies will simultaneously be hyperinflated, too."

As deficits continue the situation must reach critical mass. And they are likely to continue. Smith points out that, since 1977, the number of people receiving a check of some kind or another from the federal government has exceeded the number of people paying taxes into the system. This means that the majority of voters are now on the "take" and are not likely to vote away their salaries or benefits. As Smith cogently observes:

"Our political development has reached a stage that was warned against by Madison and other founders of this Republic. Namely, a large segment of the population has discovered that it can obtain benefits from the Federal Treasury without putting forth any efforts to earn them. At the same time, hundreds of politicians have learned that they can obtain re-election by promising more and more benefits to their constituents. We also have a truly massive federal bureaucracy that has grown every year since the mid-1950s. It obviously has a lifetime career interest in encouraging more and more spending."

Nothing goes straight up. Price patterns tend to move in cycles of up-and-down zigzags. Jerome Smith makes the following prediction: "I believe that we'll have one more inflationary cycle that goes up *almost* to 30% and comes back down to a new low of 20%. From there, it'll climb to the area of 40% to 50%. And at that point I think it will just keep going into triple-digit inflation. Maybe in three years — 1986 or '87 at the outside."

Economist Murray Rothbard, probably the world's leading authority on the Great Depression of the 1930s, is another staunch believer in the likelihood of runaway inflation. Professor Rothbard says, "I think deflation is out of the question. I'm willing to bet anybody anything that there will be no deflation ever. The difference between the current situation and that of 1929 is that now they have the unlimited power to counterfeit. There are no checks now. We don't have a gold standard anymore. We had it in twenty-nine, so they couldn't counterfeit without limit. The people could get their gold out. But now they can do anything they want. Originally, the Federal Reserve was only supposed to be engaged in buying short-term commercial paper. Then they expanded into government bonds. And now they can buy any asset they want — foreign debt, stocks, Chrysler, any damn thing they want."

According to the inflation forecasters, the government and the Fed will eventually monetize all the Debt they have to in order to bail the economy out of deflationary crunch. The forecasters all point to the great inflationary potential contained in the Monetary Control Act of 1980. In addition to placing all depository institutions (banks, S.&L.s, credit unions, *etc.*) under the control of the Federal Reserve System, the Act provides that the Fed, during "extraordinary circumstances," may reduce reserve requirements to nothing, zero, zilch. The Monetary Control Act also expands the definition of what can be considered collateral in the System. Collateral is now whatever the Fed says it is. Indeed, it was in anticipation of the urgent need to inflate that the writers of the new law added the following sentence: "Collateral shall not be required for Federal Reserve notes which are held in the vaults of Federal Reserve banks." As we noted, the language of the monetary law also permits the Fed to monetize (turn into new counterfeit money) debts of foreign governments and even loan guarantees of foreign governments.*

Agents of international bankers maneuvered this law through Congress so adroitly that it passed the House with only thirteen dissenting votes and was rushed through the Senate on a voice vote just before our national legislators adjourned for the Easter holiday in 1980. The Monetary Control Act can have no other purpose than to make it possible to flood the world with paper currency to bail out the international bankers.

At the same time the Federal Reserve stands behind the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation as the lender of last resort, ready in the event of a national monetary panic to inflate the money supply to Hades in order to bail out the system and pay off all depositors

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*Some estimates of Third World debt to Western banks are as high as *$580 billion*. A vast sea of inflation would be poured out as the basis of monetizing all that debt!

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(eventually) with cheap money. This means, insist the predictors of hyperinflation, that the corrective period of deflation and liquidation need never come as it always did in the past. Runaway inflation is therefore possible until the market in dollars totally collapses and barter replaces fiat currency.

The present reality, of course, is that we are in the depths of a disinflationary recession. The rate of price inflation as measured by the Consumer Price Index fed us by Uncle Sam has been lower in recent months compared to the buoyant days of Jimmy Carter. Late last year the government reported that consumer prices had risen at an annualized rate of only 4.4 percent in the month of October. Market reaction to the news was very positive. The stock market rallied sharply. Major banks reduced their prime lending rate below sixteen percent. Jerry Jordan of the President's Council of Economic Advisors enthusiastically proclaimed: "This could be the turning point to permanently and dramatically lower inflation."

Nonsense. A single month's decline in the notoriously volatile C.P.I. can hardly be taken as evidence that our leaders are going to Whip Inflation Now. Howard Ruff, another hedger against hyperinflation, says this about our deepening recession:

"Months ago I said that we were sliding into the second half of a double-dip recession that began in 1980, and it would be 'far deeper and more frightening than anyone anticipated.' In fact, it would eventually look so scary that it would look as though we were on the edge of the 'Great American Depression of the '80s.' I said this would frighten the Congress and the White House into stimulatory spending to prevent such a depression. The only question would be whether or not they could act in time to prevent it, or whether the Fed would have miscalculated and kept the money supply screwed down so tightly that they would inadvertently plunge us into that depression. My conclusion was that we would spend our way out of it.

"It's interesting to watch the changing psychology of the voting public and the politicians. Until recently most Americans were worried about a 10% loss of purchasing power due to inflation. Now they are beginning to worry about a 100% loss of purchasing power from losing their jobs. If it comes to a choice, you can bet your life they'll worry about their jobs. And so will the politicians. That means more inflation later."

On the other side of this "great debate" are those who say that this is *it*, that our current disinflationary recession will soon deteriorate into a massive deflationary depression, making the Great Depression of the 1930s seem like a mild downturn by comparison. James Dines, an investment advisor since the early 1960s who has earned the title "Mr. Goldbug," believes that the triggering of the slide into a full-scale deflationary depression would be a surprise which would catch the economy off its guard, that the Federal Reserve would not crank up the money supply in time, and that even if it did it would not be enough to bail out all the cash-hungry debtors. He states:

"Let's say, for example, there's a failure among the less developed countries. (They call them LDCs. I personally call them LDBs — Less Developed Bankrupts. I include New York City, of course.) Now, there's no way that these countries overseas can pay off their loans. They don't have enough money to meet the interest payments. The question is: When will it be recognized by the banking system that those loans are worthless? Some big banking failures could come along by surprise, and a spark could start a wave of bankruptcies. After all, when a bank is going bankrupt, the first thing they're going to do is go through their loans and say, 'You — We're not going to renew your loan.' Or, 'You — We want your money back right away.' Where are you going to get cash? There will be this scramble for liquidity.

"The most important part of my argument is that, believe it or not, when you actually count the dollars — the greenbacks — in this country, there's only $100 billion! That's actual green dollar bills and coins. It's actually a little less than that, but that's a round figure. Now, the entire $400 billion money supply — the rest of it — is all in the memory cores of computers. You've got a bank book. You don't have money. You've got a little book that says you have money. So, if a bank goes broke and fails to pay its electric bills, they'll pull the plug on the computer; the money's gone! It disappears overnight. Gone. Never existed. I think you're going to see the worst, most incredible contraction in the money supply in history. Now, some say, 'Well, the government is going to print more.' Listen! There aren't enough trees in America to print that much paper!"

To this last point by Dines, Howard Ruff has remarked that if you put zeros behind the numbers on the bills, there are enough trees in Central Park to do it. As for bankruptcies and a contraction in the money supply (which is mostly credit) plunging the nation into deflation, Howard Ruff responds: "That happened in Germany in the early stages of their runaway inflation. It was not deflationary. All it did was create a tremendous demand for paper to supplant credit. We have a credit economy. There is a process by which you go from a credit economy to a printing-press economy. In my opinion, the government won't let a deflation happen. I think they will freeze everything until they can print enough money and rush it to the rescue. They'll have legislation to stop bankruptcy. They will do what's necessary until they can rush that money out there, because they have got to inflate or die! Even though we all hate inflation, the majority of the people in this country have a stake in the programs that are causing it."

Still, the deflationists insist that a bust-level deflation cannot be avoided, that it will be impossible for the Fed to bail out everyone, that there are so many illiquid debtors throughout the economy — S.&L.s, many banks, Chrysler, Cleveland, the L.D.C.s — that a cash bailout will be impossible.

Others point out that hyperinflation would be economic suicide. C. Vern Myers, editor of the *Myers Finance & Energy* newsletter, notes that despite the temporary oil glut we are still very dependent on imported oil, and we dare not hyperinflate for fear of losing it. This 68-year-old financial advisor, who has written about energy for more than thirty years, insists that the energy crisis will get worse unless the U.S. can completely cut off its dependence on foreign oil supplies. At a debate in New Orleans, Myers pointed out:

"Our worthy opponents who project ever-rising inflation must want you to think that OPEC will keep on sending us the oil when the dollar has depreciated one-half and down to a quarter of its worth — down to an eighth, down to one eightieth, and then down to one eight-hundredth. That's runaway inflation. Do you, as reasonable people, see these nations continuing to pour out oil at each of these benchmarks? Won't they choke us off at one of them? For an answer, look at what's happening now. Our dollar has depreciated one half in value in ten years. That's far from runaway inflation. Even so, at this point, there is talk not only of raising prices but of cutting back on oil. They're not going to be saps. They are going to say, 'Look, Buddy, we're going to cut back the oil, or else we're going to demand a money that will hold its value.' "

But the oil-rich Arabs have billions of dollars in American banks and otherwise invested in our economy. They *have to* bet on the dollar as long as they have so much of a stake in our problem. And they can't do anything (like stopping the flow of oil) to hurt us so badly without hurting themselves to a larger extent. We have them as much as they have us.

Another forecaster of a deflationary scenario is Martin D. Weiss, author of *The Great Money Panic*, which was published last year. A recognized authority on interest-rate prediction, Weiss has been forecasting since 1975 that the next depression would not begin in the stock market as happened in 1929, but instead in the huge bond market. He believes that we are in the beginning stages of a depression which was triggered by the Federal Reserve abandoning support of the bond market in October of 1979. In an interview with Rick Johns which was published in the July 1981 issue of the American Economic Council's *Report*, Weiss stated:

"My scenario is for neither the traditional inflation nor the traditional deflation. We are now facing an unprecedented scenario wherein soaring interest rates and declining business feed upon each other, resulting in highly inflated interest rates and highly deflated prices at the same time. This will mean very high real interest rates. That's what I refer to as the great money panic."

When asked about the government and the Fed resorting to hyperinflation to bail the economy out of the panic, Weiss responded: "I take strong exception with those who feel that the government will hyper-inflate the economy. I think that is going to be impossible because something new has evolved in the American economic system that has never existed in any prior system — that's the credit markets . . . . The credit markets are at least three and one-half times larger in the amount outstanding than all of the stock markets. In dollar terms, the volume of the transactions in the credit markets is now running one hundred times greater than the stock market. Never before has credit been bought and sold the way it is today. So that changes all of the old rules . . . .

"Those who believe that the Fed can print us out of this whole mess and bring on hyperinflation are dead wrong. The credit markets provide the cash life-blood to everyone. Without credit markets, the government itself goes out of business. And that's almost what happened in February-March of 1980, when even a small lot of $5 million in government securities could not be marketed. The bond traders — at Merrill-Lynch, Solomon Brothers, Goldman-Sachs — call the Treasury Department and say, 'We can't sell your bonds.' The Treasury Department turns to the President and says, 'We cannot raise the money. We must do something to revive the bond markets.' And at that time it meant to purposefully precipitate a sharp decline in the economy. In other words, yes, the government can create *cash* money — but it cannot create the confidence needed for credit money.

"They are underestimating the importance of credit money which is over ten times larger. At the end of June we estimated total debt to be about $4.8 trillion — that includes about $1.5 trillion in mortgage debt, about $1 trillion in government debt, about $2.5 trillion in corporate debt, consumer debt, and bank debt. If they tried to print us out of this, the more cash money they print, the more credit they lose. The Fed buys government securities by printing money. It pumps the money into the bond market. The bond dealers deposit this new money in the banks and at the end of the week it pops up as a major increase in the money supply. Next, the bond owners, creditors, bankers, hypersensitive to jumps in the money supply, dump their holdings, and we get a net decline in the value of the credit outstanding, which is greater than the increase in the cash money supply. For every paper dollar they put into circulation, they could lose as much as ten dollars in the value of the credit outstanding."

Market analyst Richard Russell concurs. Commenting in a recent issue of his prestigious *Dow Theory Letters*, he observes, "I submit that if and when the Fed decides to inflate us out of a recession or depression, the debt markets will collapse and thereby simply intensify any recession. In fact, I would say that a deliberate inflation policy by the Fed would result in more money lost in bonds and mortgages than can be created by monetization of the debt!"

These observers could be right. As the current recession gets scarier, there is a great deal of evidence to support the view that it could soon slip into a nationwide deflationary implosion. Pick up any newspaper and you read about plants closing or more workers being laid off. When was the last time you saw an article announcing the *opening* of a new factory? We already have a virtual depression in such basic industries as housing, steel, automobiles, and construction. It is only a matter of time before their problems will trickle down into the rest of the economy. Unemployment will exceed nine and even ten percent.

Richard Russell summed up the dismal economic picture in his November 4, 1981, *Dow Theory Letters* as follows:

"The 'mild recession' that a few experts now recognize is accelerating downward. The latest figures show that orders for non-military capital goods (the basic components for new plants and equipment) plunged 9.5 percent in October. Orders for household goods, such as appliances, dropped 4.7 percent, while in transportation goods (automobiles and parts) new orders fell 7 percent. The shock of the past few weeks was GM's report that it had lost $468 million in the third quarter and was calling off plans to construct a half billion dollar plant in Kansas. Chrysler, meanwhile, is rumored to be preparing to borrow the final $300 million of its Government loan package. U.S. car sales in October fell to a 23-year low as even rebates failed to turn the tide. At the same time, housing slumped into what many builders are now referring to as 'the Second Great Depression.' Machine tools (a barometer of potential industrial expansion) dropped 50% in September, the lowest level in five years. And on the fiscal front it was reported that interest expenses are now eating up 45% of corporate net profits before taxes, up from only 14% in the 1960s!"

Real wages for the average American peaked back in the early 1970s, slumped in the 1974 recession, rallied somewhat in the late 1970s — and are now down about fourteen percent under 1971 levels. The average U.S. wage earner is doing worse now in terms of what he can keep than at any time in the previous decade. Incomes may appear higher, but only because of the failure to take inflation into account. We are working more and receiving less in real spending power. Both spouses of a family must work to make financial ends meet. More individuals are moonlighting to enhance their incomes. Still, the credit economy's treadmill is leaving many behind.

Business enterprises, as well as families, are dangerously over-extended and face severe liquidity problems now and in the coming months. The economic system is healthy as long as there is liquidity — as long as lenders have enough capital to lend and borrowers have the ability to repay those loans. The problem is, as more individuals, firms, and the government itself continue to borrow more than they take in, the less they are able to lend and or repay loans. There is less and less available capital in America because of inflation, taxation, costly regulations, and the immense "crowding out" of private borrowers in the capital market by the deficits of the federal government. When all our capital is used up, making it impossible for debtors to meet loan payments, the liquidity squeeze will produce widespread bankruptcies.

Martin Weiss observes, "This is the day of reckoning because they [*the debts*] are coming due at the rate of $3 billion a day — $100 billion a month — 1.2 trillion within the next twelve months. And the cash is not there to meet those debts. For example, Ford has only 15 cents in cash for every dollar of short-term debt coming due; Sears has less than six cents; Virginia Electric Power has less than half a cent in cash and equivalents for every dollar of debts coming due."

Well, inflation or deflation? Which world will it be? Unfortunately, *both* sides could be right, only at different times. In which order? James U. Blanchard III, editor of *Gold Newsletter*, predicts, "We should have a protracted period of depressed business conditions and high inflation rates, followed by a hyper-inflationary blowoff and then a classic deflation."

Although the recession will be deep, Dr. Gary North believes, "It will not be a depression; it will be a whipsaw, a cratering that scares investors out of inflation hedges, gets them to buy long-term bonds, and then destroys them in a wave of inflation in 1983 . . . . My view is increasing tightness, falling interest rates, and a return to monetary inflation to save the Republican Party in November, followed by traditional Democrat economic policies: spend and spend, tax and tax, inflate and inflate."

In other words, we might be about to get hit with the old one-two punch — the whipsaw technique used so successfully by the banking *Insiders* in past recessions. The first phase will be (or already is) the disinflationary or deflationary recessionary interlude. This is the period of acquisition by Establishment *Insider* corporations, with ready access to credit, of asset-rich and cash-poor firms at distress prices. The big fish will eat the smaller fish. The *Insiders* of Big Oil and Big Banking, friends of the Fed in the corporate world, will have plenty of liquidity amid widespread bankruptcies of other corporations and businesses. What you are likely to see is a wave of mergers and corporate takeovers, largely financed by Big Oil and the banks associated with Big Oil, which will swallow up huge amounts of capital resources at bargain prices.

In fact there is a new incentive provision in the tax law which allows corporations — especially the capital-rich Establishment corporations — to buy up the assets of struggling firms at twenty or twenty-five cents on the dollar, and to get tax write-offs at full face value of the original price of the assets. In other words, this new loophole enables the big corporations to purchase the losses of other corporations as tax credits. That will greatly reduce the corporate taxes of the *Insider*-controlled companies able to take advantage of it. What will happen is that there will be massive purchases of the assets of beleaguered corporations, and the cash-rich corporations will turn around and lease those assets back to them — with the Friends of Rocky getting the tax credits, depreciation, and the write-offs.

The drop in federal revenue as a consequence will further aggravate an already hopeless Budget deficit. Meanwhile, as other firms will be teetering in the desperate scramble for cash, the Fed's credit rationing will supply all the liquidity required for mergers.

We already are seeing evidence and examples of this next step in the further cartelizing of American industry. The bidding battles between Mobil and Du Pont in the struggle to take over Conoco, and the subsequent fights between Mobil and U.S. Steel over acquisition of Marathon Oil are but an early taste of what is to come in the next few years.

The subsequent phase of the economic whipsaw would be the inflationary bailout to prevent full-scale depression. Naturally Conservatives are skeptical that Ronald Reagan, the devout foe of inflation, would ever permit an opening of the inflation spigots all the way. Though President Reagan may indeed be reluctant now to drive the printing presses to "Warp Nine," one must remember that the last thing he wants is to go down in history as the Herbert Hoover of the 1980s. A Calvin Coolidge, perhaps — but not a Hoover! So if amid economic turmoil and desperation he decides massive inflation is the only way out, then that's what we'll get.

Still, these fiercely debated disaster forecasts are not all that is being heard. There are now some who believe we are heading for a soft landing. Dr. Louis Gasper, for example, spoke at the National Conference for Monetary Reform last November, optimistically predicting that Reaganomics would save the day and that we would see zero percent inflation in 1984 and substantial growth in real capital. Let us now examine what critics of the "soft-landing" theorists are saying.

Without a clear understanding of sound economics and conspiracy theory the American people are not likely to have enough patience to stick with the Reagan ideal long enough to achieve a cure. Even if they did have the patience, however, the Reagan Administration's economic recovery plan does not go far enough to effect a cure for inflation. Consider the following facts.

First, as we have observed repeatedly in this magazine, there has been neither a tax cut nor a Budget cut. Both the level of taxation and the level of spending will be much higher this year than last. In March of 1981, the Administration's proposed Budget for Fiscal 1982 was estimated to be $695 billion. That was already $33 billion *more* than was spent in Fiscal 1981 ($662 billion). By summer, however, the estimate for the 1982 Reagan Budget was revised upward to $705 billion — which is $43 billion more than was spent for 1981. By fall of last year the Reagan team was talking about a 1982 Budget in excess of $722 billion — a full $60 billion more than the Budget for Fiscal 1981! Moreover, Budget deficits are now officially estimated to exceed $100 billion for 1982, $150 billion for 1983, and $160 billion for 1984 — making even *my* 1982 forecast of $80 billion to $100 billion in red ink optimistic by comparison!

Remember, first, that these figures do not include the "off-Budget" spending or the loans and loan guarantees made by our federal government. Which means the true federal deficit imposed on the private capital markets will this year be around $175-$200 billion. This will mean total strangulation of the already beleaguered capital market, despite the hoped-for incentives to investment provided by the tax-rate reductions. The federal government and its favored corporations will leave no credit funds for the rest of the economy. Meanwhile the interest on this federal Debt exceeds $100 billion a year — more than the entire federal Budget in 1962.

Second, regulations are still increasing — although at a somewhat slower rate than under Jimmy Carter. These proliferating rules, guidelines, and controls continue to hamstring our economy and impose unnecessary costs on consumers. To the extent that regulations discourage economic growth, they reduce the amount of goods and services produced compared to the growth of the money supply and, thus, contribute to the problem of price inflation. In terms of regulation, taxes, and spending there has been neither a halt nor a reversal in the decades-long trend of ever-expanding government. That way lies disaster.

Real cuts in the federal Budget are needed to balance the Budget and save our economy — at least $100 billion worth. Can it be done? Specific appropriations cuts and eliminations of unnecessary and counterproductive programs and bureaucracies costing precisely that much have been spelled out by Donald Lambro in his book *Fat City: How Washington Wastes Your Taxes* (South Bend, Indiana: Regnery/Gateway, 1980).* Real tax relief could thus be achieved which would stimulate saving and economic growth in the private sector, providing greater employment opportunities for more people.

Further to relieve pressure on our economy, regulations must be eliminated to get Big Government off our backs and increase plant efficiency.

At the same time, we must have fundamental monetary reform. Specific and well-thought-out proposals for this have been made in Congress. Representative Ron Paul of Texas has introduced a comprehensive bill — the Monetary Freedom Act — which, if passed, would require a full

*Early last year, when Congress debated and then approved a $50 billion hike in the temporary National Debt ceiling, Congressman William Dannemeyer (R.-California) offered a plan which contained proposals for specific cuts in the Fiscal 1981 Budget which would have totalled $56 billion. His proposal would have eliminated forty-four offices, bureaus, commissions, councils, boards, and agencies, while abolishing twenty-four federal programs. Representative Ron Paul (R.-Texas) went even further, compiling a list of proposed cuts in eleven categories of spending totalling $212.5 billion. Alas, neither plan was adopted.

assay, inventory, and audit of America's gold reserves, repeal all legal tender laws, establish a genuine gold dollar, and repeal the special privilege of banks to create money through fractional-reserve operations. This proposal, if enacted, would be a complete and constructive solution. Alternatively, a more gradual approach has been introduced by Steve Symms in the Senate and by Daniel Crane in the House of Representatives. Called the Free Market Gold Coinage Act, this bill would provide for the minting of U.S. gold coins, legalization of private minting of gold coins, and would give Americans a safety hatch to escape currency depreciation through a sound-money alternative.

The President and his congressional liaisons should be giving their full backing to these monetary reform bills. They aren't doing so.

Of course, it must be admitted that if President Reagan were actually to attempt to take all the actions which are so desperately needed to cure our economic ills, Congress would probably *not* go along. Indeed, it is the Congress that is already backsliding on the modest "cutbacks" which it promised last year. It is even conceivable that the Congress could sabotage the Reagan plan to reduce the *rate* of spending growth, and that by the end of Fiscal 1982 the government would be spending as much or more than the $739 billion which the lame-duck Carter regime projected for 1982!

Real slashes in federal spending are necessary. But because of the nature of the Budget process and the nature of politics in general, politicians tend to do what is expedient, not what is right. At this year's National Committee for Monetary Reform Conference, James Dale Davidson, author of *The Squeeze* and president of the National Taxpayers Union, used a provocative analogy to explain why it is so difficult *politically* to reverse the suffocating growth of government that now threatens us. He asked the conference what would happen if he took 435 individuals from the audience, gave each an American Express card, and told them that they could spend all they wanted on whatever they wanted, but at the end of two years they would each have to pay one four-hundred-thirty-fifth of the total bill, no matter how much or how little each had spent. It is obvious, observed Davidson, what would happen. Everyone would go out and spend as much as possible, using the American Express card as a blank check. Each would do this because if he doesn't use the card he would have nothing at the end of the two years to show for having had the privilege — but he would still have to pay his share of what everyone else had spent. No one would want to be the sap who had to pay without getting anything out of the deal for himself.

That is the problem with Congress, and why spending keeps going up and up. It's exactly the way our system works. Each of the 435 Congressmen knows that his District will have to pay its portion of the total federal Budget. Each Member has every conceivable incentive to stick his hands deep into the "pork barrel" to get as many goodies as he can for his constituents in order to keep his District happy and assure his re-election. The politics of the situation favor continued and increased spending.

So, while the Reagan policy initiatives are woefully inadequate, it is also true that Congress is the major problem. And is likely to continue to be until such time as we can fill it with movement Conservatives.

All of this indicates that we are not going to have a "soft landing."

The half-hearted approach of Reaganomics will not be enough to pull off an economic miracle; certainly not by the 1982 elections. If "Liberal" Democrats are not reduced in numbers they will then undo even what little the Reagan Administration has tried to do, and it will be the old politics-as-usual with a vengeance. This will in turn lead to hyperinflation. The Federal Reserve will have to inflate dramatically to monetize the resultant unfundable mountain of Debt. And the new powers granted to the Money Trust by the Monetary Control Act of 1980 will be used to bail out the big banks and savings institutions at public expense.

Does this mean that I am a total pessimist, preaching apocalyptic gloom and doom for whatever remains of the history of mankind? Indeed not. While the policies of the "Liberal" Left have put us in a terrible situation and we are threatened with a colossal economic debacle, there are indeed grounds for optimism. In every crisis there is opportunity as well as danger. What we Conservatives must do is work harder than ever to communicate what is wrong and seek the election of men and women who will act to correct it. Simply put: We need more Ron Pauls in the national legislature and fewer (or no) Tip O'Neills.

In this connection, TRIM — Tax Reform IMmediately — has been a tremendous success in translating grass-roots education into political victories for our side. However, even more must be done to increase understanding of the nature of our problem. A growing consensus for more freedom and less government must be built to counteract the vested interests in Big Government. It won't be easy — but we now have the means for doing the job. All that is required is that more time, money, and influence be applied to what we are already doing.

Now is the time to get active — not several months from now. Educate yourself to gain more factual ammunition for the battle. Keep abreast of the issues by reading AMERICAN OPINION and *The Review Of The News*. Express yourself on specific issues in letters to the editor of newspapers and magazines, and write regularly to your Representative and Senators. Join TRIM and become more active in letting the people know how their representatives are voting. There are a number of ad hoc committees of The John Birch Society through which an individual can multiply his effectiveness in promoting less government and more individual responsibility. Join them and encourage others to join. And, in the name of everything that's holy, do it now!

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NEXT MONTH, we will consider a scenario in which deflation turned into hyperinflation is interrupted by a crack-up boom of twenty-four to thirty months. In the beginning it would lower interest rates; revive capital markets, building, real estate, and commodities; and, send the Dow-Jones average skyrocketing to the dizzying level of 3000. This is the rabbit which the Reagan Administration could pull out of the hat. It would allow Reagan to go down in history as Calvin Coolidge rather than as Herbert Hoover. We will reveal the clue that the *Insiders* have decided to set back the clock to 1927 and enjoy one more ride up the financial roller coaster. And we will tell you how to know when that roller coaster is nearing the top.

In short, we will discuss a scenario that could buy just enough time for a Conservative Congress elected in November to pull the fat out of the fire. ■ ■