

The U.S. in the Summer of 1974

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ALMOST universally the traveller from America who tours abroad is impressed most by the foreign contrast to the quality of life at home. In the United States poverty is an automobile and a television set and, while racist demagogues, politicians, and the social work vocation does not like to accept it, it is a concomitant of an over-abundance of offspring.

America is what it is for many historical reasons. There was the land for settling, allowing the citizen of historian Walter Webb's "great boom" hypothesis (that the period about 1500-1650 when new lands were explored and settled provided a "boom" period for mankind which can never be repeated) a chance to escape from the accumulated debris of the ages to shed his status as a European peasant and servant of a landed master. Here he was his own master, with the yeoman farmer combining ownership and labour in the same person.

There were the traditions of English law, the Anglo background and character of its formative settlers, its system of government of independent and sovereign states *vis-a-vis* each other, but presenting a united front to the outside world. Its Protestant traditions have emphasized the autonomy and dignity of the individual person. Its system of government was set up to maximize the freedom of the individual by subjecting all rulers to a rule of law rather than of men, no matter how enlightened or good intentioned.

America the beautiful,

God shed his grace on thee

There is no question but that the United States has been a land blessed among nations. And with respect to foreign lands, to those conquered in war, to those carping with jealousy to possess what Americans developed, America has been generous beyond belief.

But there is an illness in the spirit of the land as America has assaulted its own character and integrity through decades of liberalism (not the classical Liberalism which sought to free man from the State, but the modern "liberalism" of "positive government" which seeks to omnipotently increase the power of the state to decide, prescribe, and enforce its remedies, goals, pallatives, and nostrums

on individuals who should be sovereign). Just as the nostrums of the positivists bore fruit in an unintended manner in the excesses of the French Revolution, the fruit of the latter day Faustians is being harvested in a myriad array of confusing and bewildering economic and political forms.

One place to get a feel of the United States is in the little stores which scatter among its settlements. The people who gather there as they have for generations, sense something abnormal is happening. Watergate merely crystallizes their suspicions regarding the corruption of government. Government is no longer *their* government. It is not so much Watergate (which shows the health of the American system, which is willing to air its dirty linen in public) as it is the fact that Government has become all powerful in ways that could scarce be contemplated, and, if contemplated, they would not have been believed, a scarce decade ago.

A country storekeeper in Alabama, with whom I stopped to pass part of the day, explained that his replacement costs for stock would be more than he is now selling them for. A nearby Discount Store advertised its bargains, but the merchandise in many cases had labels indicating significant price increases over the original labels. A country snuff-sugar-popcicle-coke grocery operator explained how the price of certain commodities (e.g., sugar) had doubled in a couple of weeks, and how his replacement price was higher than the price for which he had been able to sell his previous supply.

Fifteen years ago a comfortable middle-class home could be purchased for \$500 down, and would cost no more than \$15,000-\$18,000. The house which today sells for \$35,000 was a \$25,000 house or less not over a decade ago. Gasoline which sold for \$.32 a gallon about a year ago now sells for \$.60.

As Alexander Paris points out in *The Coming Credit Collapse* (Arlington House, 1974, 224 pp., \$8.95) his study of the morass of the government's big-money goofs, the nation is facing the most stubborn inflation in its history. Inflation expectations are beginning to permeate long-term investment decisions. Wage and price controls, another historic precedent, are compounding the confusion and the opportunities for corruption. Riots, assassinations,

political scandals, carefully sown and nurtured discontent among specific groups (who, for purposes of disruption, have become the new Marxian classes) have aggravated the situation.

Alexander Paris sees the economic cauldron facing the United States as the culmination of a long trend of excessive credit growth, which he feels is rapidly approaching its final phase. For decades, he contends, Government, business, and the consumer have been writing checks on empty bank accounts. No



money? Get a loan! If the Government, then preempt tomorrow's production. And now, like a playboy's day of reckoning in a Victorian novel, all the bad paper is coming due at once . . . and the sheriff is at the door with the eviction notice.

The author, noting that in the post war period the amount of credit outstanding has grown at a rate which on the average has been two to three times faster than the growth in production of goods and services and that the rate has been accelerating in recent years, argues that this trend has resulted in a growth demand that has been highly artificial and is ultimately responsible for the economic and financial problems facing the investor today.

The root of the excessive credit growth is attributed to a steadily evolving policy of the federal government. The seeds of the new philosophy and the current crop of economic problems, he asserts, were sown in the 1930's with the New Deal and the advent of Keynesian economics, gained momentum during World War II, and reached its zenith with the age of the so-called new economics during the New Frontier and the Great Society.

"The philosophical notion that the federal government is "responsible" for the general welfare of the entire population took root in 1946 [Employment Act of 1946], when the government was legally pledged to maintain full employment at any cost. With this avowed aim of legislating away any serious business corrections, this foundation was laid for the rapid postwar expansion of the government sector. More importantly, the growing belief that serious social or economic ills would be effectively handled by the authorities . . . led business to feel secure in over-exten-

ded financial positions incurred in search of faster growth."

The government budget has become uncontrollable as government spending has developed its own internal momentum. New programmes are expected for every real or artificial social or economic demand - old programmes, instead of either dying or fading away, grow far beyond their original conception. Fiscal discipline has disappeared. Over half of every dollar is spent by the government, which has a fabulous propensity for, in the words of Prof. Otto von Floridello, turning everything in which it becomes involved into crap. As Paris points out, since growth comes as a result of *private* risk taking, the rapidly growing encroachment of the government sector contains the seeds of its own destruction.

Simple, short-term solutions to the problems that ail the United States are not available, for they are the results of over thirty years of accumulated financial abuse. Because excessive government spending and the excessive credit creation that results both directly and indirectly from government actions have been unchecked for a long time, the inflation and credit trends now have a momentum of their own. Government spending continues to grow at excessive rates. The credit crunches of 1966 and 1969-70 are seen by Paris as merely the first two tremors of the financial earthquake which he feels is to come.

The author opines that despite the publicity given to inflation, inflation is now only the interim problem. The real problems of the 1970's are seen as financial panic, recessions, and eventually deflation. Government success in staving off the massive credit liquidation and financial panic will be measured in growing inflationary pressures and diminished personal freedom.

For thirty years economic growth and the income statement have held the limelight, but, Paris states, the day of the balance sheet is coming, when survival will take precedence over growth.

Paris is of the opinion that nothing less than a complete change in the philosophy of government, accompanied by major reforms in both congressional and administrative techniques, is required. But there have seldom been any reversals of strongly entrenched government philosophies without a crisis. There is strong doubt whether any elected government, he feels, "would have the ability, will, morality, and fortitude to engage in the long-term, deliberate action to slow credit growth that would be necessary to cure our financial ills without a serious credit liquidation and financial panic". The perspective from here is somewhat less than optimistic.