Inflations, Bankruptcies Put Capitalists in Vice

Aug. 3 (IPS)—That the capitalists can now choose between hyperinflation or chain reaction bankruptcies and renewed production collapse is sheer fantasy. The U.S. economy is already entering a period of inflationary price explosion whose end result will inevitably be a general collapse marked by massive loan defaults. Neither the "anti-inflationary" tight credit and fiscal policies of the Burns-Simon-Rockefeller axis, nor the inflationary tax-cut proposals of its New York Times and Democratic critics, can reverse the recurrence of the nightmares of Weimar-Germany 1923 and U.S.A. 1929 to 1933.

The Race Is On

In the last two months, the "official" rate of inflation has again passed into the double-digit range. Despite press protestations that this June-July price surge is being discounted as another isolated phenomenon associated with "one-time" fuel and food price increases, a self-feeding price explosion is now spreading to all sectors of industry. Plans to increase prices for automobiles, steel products, and airline fares are now in the making. In addition, price increases in two widely used industrial commodities—energy and aluminum—whose combined inflationary impact will exceed that of the 1973-1974 400 per cent oil price increase, are expected. Aluminum price increases of at least 3 per cent will immediately feed into price increases in auto, construction, and home appliances, industries which are already planning sizeable price increases. According to the Congressional Budget Office, decontrol of energy prices now certain to take place Aug. 30 will alone add 2 per cent to the official inflation rate and $40 billion in additional costs to producers and consumers.

In reality, this hyperinflationary spiral is fed by a concurrent process of autocannibalism of production. Since last October, near-bankrupt corporations have generated short-term cash to meet debt obligations by shutting down production, laying off workers, slashing capital spending, and liquidating inventories.

The short-term benefits of such actions have now been outstripped by their long-term disadvantages. Corporate earnings, after discounting for unsaleable and inflated inventories, have collapsed by 40 per cent from one year ago. The only means by which business can raise cash on even a short-term basis is to raise prices, that is pass the burden of debt payments to other producers and, in turn, the working class.

Geometric increases in prices can only provoke geometric contraction of sales and production. The increases in cash flow from the sale of inflated products will be quickly offset by the fall in total sales. Workers already pinched by 10 months of mass unemployment and, savings depletion and debt-payments which absorb at least 25 per cent of income, will simply stop buying.

The latest monthly decline in retail sales confirms this evaluation. With inventories still at near record levels, any slight fall in sales will immediately translate into cutbacks in production and employment offsetting a renewed sales collapse. To compensate, corporations will once again be pressed to raise prices repeating the process all over again.

The Inflationary Alternative

The rottenness of the U.S. banking system guarantees that in a short-period this boom-bust cycle will collapse in complete bust. In its present illiquid state, the U.S. banking system cannot finance additional price increases, providing credit to both consumers and producers to circulate the inflated prices.

However, in a burst of fantasy, the New York Times this week claimed that at least $50 billion is lying idle in the banking system, waiting to finance price increases. According to the Times, who was so unbalanced by monetary collapse last week that it published its graph of economic indicators for an up-turn upside-down, "Savings are flowing rapidly into the commercial banks and thrift organizations; just since the start of this year, time and savings deposits at commercial banks have increased by $20 billion, and at various thrift institutions by $30 billion."

This $50 billion of temporary rainfall deposits is the product of the shutdown of economic activity and $25 billion in tax cuts. It has already been claimed. At least one-third must go to the U.S. Treasury to finance $50 billion in debt scheduled for sale between now and Jan. 1. The rest is needed by the banks themselves desperate to keep liquid in the face of accumulating loan losses. Another $20 billion is required simply to finance current inventories at present rates of inflation.

In short, there is not one spare penny to finance a recovery let alone one based on the present hyperinflationary build-up. Without such bank credit, production will have to be further slashed, inventories liquidated at losses, and bankruptcy spread throughout the entire corporate and banking community a la 1933.

This process is well under way. In the last four weeks the New York commercial banks—the principal financiers of recent inflationary upturns—have collapsed their loans to industry and commerce by $1 billion and restricted all new investments except MAC bonds to short-term Treasury debt.

Stuffing the banking system with government "mefo bills" as the New York Times and other cabalist groupings propose will only force banks to liquidate their loans and investments in production at an even steeper clip. To offset this deflationary impact the government would have to constantly pump ever greater massive doses of spending and debt financing into the economy, creating a nightmare in which hyperinflation and collapse merge into a single phenomenon.

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