Capitalists Are Balking At 'Biting the Bullet'

by David Goldman

Aug. 5 (IPS)—If Third World countries, residents of U.S. cities, and other victims of financiers' debt were not prepared to do it for them, capitalists would postpone biting the bullet on debt moratoria, preferring to let the economy slide into economic chaos. In particular, the U.S. capitalists' "alternative slate" to the miserable Rockefeller-Ford-Kissinger clique in Washington — old-time Democratic Party insiders — want to appease the menacing economic crisis by shovelling bales of money into its jaws.

Bankers were disheartened, during the past month, at the case with which corporations declared moratoria on their debts to each other. By free-for-all selection, between 40 to 50 per cent of banks' loans are now or are about to become the subject of debt moratoria — including a moratorium by Chase Mortgage Investors against its parent, Chase Manhattan Bank. This disorderly domino-style collapse of credit relations between capitalists, left to its own momentum, would shut down the economy within weeks.

Prof. Richard Cooper of Yale and the Trilateral Commission, the New York Times editors, Washington Post columnist Hobart Rowan, and a gaggle of economic leftovers of Democratic administrations all agree on a general re-financing of these debts. The immediate effect of this crackpot policy would be to unleash what economists call "inflationary pressures" onto what is left of production and trade.

Specifically: each of the pathetic increases in certain categories of industrial orders and sales traces directly to fear of hyperinflation. This emphatically includes the modest upturn in auto sales. According to the National Association of Purchasing Managers, which surveys deliveries of semi-finished goods and raw materials "No one is planning to produce anything. But there is a list of materials to stockpile for two years, with a guaranteed rate of return of 100 per cent," due to expected inflationary mark-ups. Corporations suffering from a 40 per cent drop in revenues and "strung-out liquidity-wise," as one banker put it, are now "testing the water" for across-the-board price increases.

In these circumstances, a proposal to give the green light to price hikes is equivalent to putting up a "Free Lunch" sign — and inviting the guests to eat each other. Price increases for industrial raw materials like oil, rubber, steel, aluminum, and chemicals already in the pipeline scare the wits out of the industries one step farther down the production chain.

Last year, price increases came to a lump sum of $180 billion. Corporations absorbed this whopping bill through operating revenues — then almost twice as high as now — and through $20 billion in bank loans. But loans to corporations fell by $20 billion during the first six months of this year alone, while revenues went through the floor. Bankers interviewed this week were unanimous: "Banks will not underwrite another inflationary spiral." According to one of New York's largest, "Even the de-control of oil prices — which would add about 2 per cent to the inflation rate — would put tremendous pressure on the banking system."

Accordingly, Cooper and Company have given up on the banking system: they want to mainline funds into the economy through increased government spending and tax cuts. This, Cooper told IPS, would solve the "main problem in today's world: too little spending power compared to our capacity to produce." This sounds simple: if debt-squeezed corporations need to push up prices by 20 per cent, why not have the government pass around enough folding money to circulate these goods?

But Where does the Government Get the Money?

The Federal government must raise $40 billion on its own account by selling its debt-paper between now and Dec. 31. This record deficit is a by-product of revenue drops due to the collapse of production. Even current deficit levels — never mind what Cooper and the New York Times want — cannot be financed, except with disastrous consequences for the rest of the economy. "It's a mind-boggling exercise," said one specialist, who claimed that banks could buy up no more than one-quarter of Washington waste-paper. The Treasury expects them to buy half. Banking insiders confirm that banks must go after ultra-high-interest projects, to cover for the zero-interest portion of their balance sheets. Safe, low-interest Treasury bills do not meet this requirement.

What Federal Reserve Chairman Arthur Burns — a terrified opponent of the inflationists — wants to avoid is a crisis in which the Fed is compelled to purchase the Treasury's debt, releasing funds directly into bank reserves, which can then turn into 2 to 3 times the original amount of bank loans. To this end, Burns engineered a rise in U.S. interest rates, now at a six-month high, to lure free cash from money markets in Western Europe. In a last grab for free funds, Burns last week borrowed $1 billion from the Third World's coffer by selling securities to the World Bank — a desperate measure which bankers said was "not a bit surprising." The idiocy of Burns' effort is clear; the gaping hole in the U.S. Federal budget is so monstrous campared to the size of related credit sectors that the Fed could put off its own crisis only for an even month, despite its thorough wrecking job on other sectors of the world credit system.

Burns got his crisis this week, when potential buyers of his IOU's held onto their wallets instead. So much for deficit spending.

The magnitude of the crisis is so great that the bitterest opponents of tight-money Burns feel queasy at the prospect of an open fight. One of the newspaper columnists who led an attack on Burns last Spring for refusing to let funds into the banking system fast enough explained why he now keeps his mouth shut: Burns' vow to keep money supply growth at 7 and one-half per cent, very tight indeed compared to refinancing needs, is the same rate of increase that the hyperinflation daredevils called for last April!

No Guarantees

Since the hyperinflationists here are keeping mum, we will let one of their Italian co-thinkers speak for them:

"Weimar's finance minister, Rudolf Hilferding, refused advice...to immediately print money to revive the economy. The result was that Hitler came to power because of the depression...the 'orthodox Marxist' in Hilferding revolted. This was his mistake. Then Hitler came in, and together with (Nazi

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finance minister Hjalmar) Schacht, did exactly this and saved the situation."

The writer is Leo Valiani, an old colleague of fascist Ugo LaMalfa, writing in L'Expresso. He concludes with a recommendation that the workers' movement do to itself now what Hitler and Schacht did to it during the 1930's, to save trouble all around.

Schacht, of course, would turn in his grave at the suggestion: he never issued paper except with the expectation that loot, courtesy of the SS, would be available to pay interest. Even Second International leader Hilferding would choke at the title of "Orthodox Marxist," after his buffetting at the hands of Rosa Luxemburg, the authoritative Marxian economist.

But the cited view is the masturbation fantasy behind the "policy" of Cooper, et. al. The reality associated with their views can be inspected presently in Argentina where 200 per cent inflation has made it impossible for corporations to meet current bills — forcing 200,000 layoffs this week alone.

The alternative — all the principals are aware — is systematic penalization of financiers' income on parasitical debt. There is no other means to revive the actual earnings of productive industry. Along with debt moratoria, interim credit measures are imperative to bypass the crumbling dollar credit mechanism, of a sort falling within the general framework of the International Development Bank proposal. Any capitalist faction which wants to survive the next few months must face up to reality and bite the bullet. Our own efforts to force debt moratoria in key sectors should give them adequate incentive.