Money Supply Out Of Control In U.S.

NEW YORK, May 22 (IPS) — The U.S. money supply continued to flow out of control, increasing $2.0 billion for the week ending May 12, an annual rate of 25 per cent. Threatened with potential runaway inflation, leading hatchetmen for the Rockefeller dollar empire stepped up their attacks on U.S. living standards.

Senator William Proxmire (D-Wis), at a Senate Banking Committee hearing May 21 on the Humphrey-Hawkins bill, proposed that the slave labor jobs to be created under the bill should pay only 10 to 20 per cent more than unemployment benefits rather than the prevailing wage.

Earlier in the week on May 17, Sen. Proxmire gave a press conference on the Senate Banking Committee's report on the $1.3 billion loan to New York City. Proxmire demanded that as a precondition for continued Federal loans there must be an unconditional three-year freeze on city employees' wages, huge cuts in city pensions and other union fringe benefits, iron-clad productivity agreements and an end to rent-controlled housing. The next day, after Treasury Secretary William Simon issued an endorsement of the measures in Proxmire's report and threatened to cut off loan money unless the city could guarantee a wage freeze, the New York State Emergency Financial Control Board voided the contract negotiated March 31 between the New York City Transit Workers Union and the Metropolitan Transit Authority and ordered that any cost-of-living increase paid to city workers must come from "savings" from increased productivity. The EFCB then stated that this would be its final guidelines for all future labor negotiations.

Paul Volcker, president of the New York Federal Reserve Bank and a former officer of Chase Manhattan, underlined the reasons why the Rockefeller faction must go for all out austerity in a May 19 speech before the prestigious Conference Board. Volcker admitted that the present target rates for money supply growth announced by Federal Reserve Board Chairman Arthur Burns earlier in the month — which in fact are now being greatly exceeded — are inflationary. But, he said, the inflationary momentum cannot be squeezed out of the economy abruptly without drastic consequences. Volcker warned that in this situation, whether gradual reduction of the growth of the money supply can be accomplished without a pronounced rise in interest rates will depend on the strength of cutting wages and other costs and progress in reducing huge government deficits.

The dilemma forcing the Rockefeller faction to go for severe austerity measures highlighted this week's financial developments. In a combination of events which is impossible from the standpoint of capitalist banking theory, interest rates are rising by more than one-quarter per cent per week, even though the money supply is skyrocketing and the Federal Reserve is adding money to the system. The Federal funds rate continued to rise faster than expected, going from 4 and three-quarter per cent late last month to a range of 5 and three-eighths to 5 and one-half per cent by the end of the week. At the same time, the Fed supplied banks with over $1 billion of reserves for the week ending May 19, indicating that Burns, far from "tightening credit" as publicly advertised, is essentially helpless to control the situation, since any failure to continue to supply reserves to the system would likely bring about a collapse.

Interest rates are rising even in the face of continued contraction of commercial and industrial loans, which dropped another $242 million last week. Three month Treasury bills were yielding 5.42 per cent at the end of the week, of three-quarters from their 1976 low in January. $2.25 billion of two-year Treasury notes which were auctioned Wednesday at an average of 7.16 per cent were trading at a yield of 7.24 per cent late the next afternoon. This compares to 6.61 per cent average return on a similar two-year note when it was issued May 4.

As a result of rising interest rates, the credit markets were extremely uneasy. The Treasury sale Wednesday to refinance $1.5 billion in notes maturing May 31 and raise $750 million in new cash drew a much smaller response, especially from commercial banks, than had been anticipated, even though the return was well above the rate expected in advance. The Treasury will be selling another $2.9 billion in debt this week, and $2 billion the week after.

Confronted with this manifest chaos, the Commerce Department this week issued a formal declaration of bankruptcy for the dollar empire. The "concept of a balance of payments deficit is no longer relevant," the Commerce Department declared, and announced that it would no longer print statistics on the flow of funds in and out of the United States.