

conversion of spare auto capacity to tractor production, reconversion of the aerospace sector to civilian production, and general renewal of the depleted U.S. industrial capacity. There are two immediate steps that must be taken in this direction.

First, once International Development Bank financial arrangements open up a world market for \$100 billion in additional U.S. exports — doubling current U.S. exports — the requirements of industrial investment will outstrip all existing financial sources combined several times over. Apart from urgent investment in new areas of production mentioned above, existing U.S. industrial capacity has gone through almost a decade of aging and depletion. Adjusting the Commerce Department's highly conservative estimates of the age and condition of U.S. plant and equipment, U.S. industry would have to spend \$225 billion (at 1975 prices) to return capacity to its condition in 1968! This sum is more than twice all capital investment in 1975. But the capacity in steel, machine tools, construction and raw materials either exists, or can be quickly created, to fill the investment gap.

Against this figure, all nonfinancial corporations in the U.S. have been able to borrow funds on the bond market at an annual rate of slightly over \$25 billion during the record 1975 year, and even less this year. The "internal generation of funds" hailed by some economists is a pathetic sum, except in the distorted context of the current miserable levels of industrial output and actually-negative levels of capital investment.

The answer to the financing problem is simple. The Federal government — either directly through the Federal Reserve Banks or through a new National Production Bank — must create and issue long-term, low interest loans to industry, at an annual rate of several hundreds of billions of dollars.

There is a certain type of precedent for this in the Federal system of agricultural lending banks, which have developed a

close working relationship with regional commercial banks since the 1930s. To permit regional banks to "compete" with Federal financing for industry — that is, to fill a productive function — the Federal Reserve must lower its discount rate (the rate at which it lends to banks as a lender of last resort) to about 2 per cent. The 95 per cent of the banks in this country who are basically viable are indispensable for an economic recovery, for the short-term side of business financing, but they are entirely unequipped to deal with the investment requirements of U.S. industry. (At the rate of economic expansion the U.S. can reach within six months, Federal agencies will also have to supplement short-term financing as well, by discounting bills of exchange arising from production and inventory.)

A Real Program To Stop Inflation

But the current agricultural bank system is totally inadequate, in the sense that it depends on issuing bonds on the open market to raise funds. This follows the stupid notion that all funds for investment must come out of "savings." That is, instead of providing advance financing for predictable social surplus, the securities markets attempt to gather up all the available "savings" of several tens of millions of households. This is allocation of social surplus inside-out. The need is to provide liquidity for those areas of investment which will generate social surplus by contributing in the most effective way to the total expansion of the economy. In passing, we will discard monetarist notions of inflation as well. Inflation has nothing to do with "excess" creation of liquidity, but rather, the application of existing liquidity to unproductive investments which do not contribute to generating social surplus. The more liquidity we create — by sheer government fiat — to invest in the Jordan steelmaking process, fusion power, tractor conversion, and so on, the quicker we eliminate inflation.

Wall Street Incompetents Try To Torpedo Ford's Economy Policy

WASHINGTON, D.C., Aug. 31 (NSIPS) — A noted Wall Street torpedo is trying to subvert the Ford Administration's economic policy stance through a fear campaign in high Republican circles. This malicious effort — which seeks to accomplish by internal wrecking of the White House what the flagging Carter campaign is failing to do from outside — will destroy the U.S. economy in the event that President Ford takes it seriously.

The torpedo, Wall Street business consultant Pierre A. Rinfret, suggests that Ford chuck everything in and turn on the printing presses, that is, take over the Carter "program," for the unstated purpose of bailing out the New York banks. In a message conducted through Ford advisor and former Texas Governor John B. Connally, Rinfret proposes Ford install hyperinflation advocate Walter W. Heller — the most wild-eyed of the Democratic Party funny money men — at the U.S. Treasury. This, Rinfret says, will enable Ford to shift present Treasury Secretary William E. Simon to the Federal Reserve, although Simon "would have to be prepared to testify before Congress that he would pursue a low interest rate, high money supply, easy credit policy."

Hyperinflation for Bailouts

What the Wall Street torpedo wants is more bailouts and more debt-rollers — hyperinflation — as the leading Wall Street investment houses, notably Lazard Freres, have been demand-

ing for months. The suggestion that this is "a positive program of economic growth in order to expand production and employment" is contemptible. Since mid-year, banking reserves have been rising at a 12 per cent annual rate — half again as fast as Fed Chairman Arthur Burns says he wants — and interest rates have been falling. The banking system is choking in Federal Reserve liquidity. But loans to business have been falling by several hundred million dollars a week at the nation's banks — by \$600 million during the last reported week alone.

Every penny of available liquidity goes to refinancing. During July, renewed economic contraction showed up in falling retail sales, auto sales, industrial orders, durable goods orders, housing starts, industrial building starts, the U.S. trade balance, business loans, and flat industrial output.

Patently stupid in his professed motives, Riff-Raff is even stupider from the standpoint of his real, underhanded motives. Easily available liquidity is not what holds \$800 billion of illiquid debt together. Wall Street's political license to loot the Third World past the point of genocide, and its political ability to impose a contraction of trade on Europe and Japan is what holds \$800 billion of toilet paper together.

Wall Street's problem is not "high interest rates" and "low money availability," the bogeyman that Rinfret holds up to Ford. The Third World will stop payments on \$450 billion in

Eurodollar debts by Sept. 15. Western Europe and Japan have defected from the dollar empire. The Wall Street banks hold between 25 and 40 per cent of their assets in the bankrupt Euro-dollar market. After Sept. 15 nothing is going to save them. The political license to loot will be in shreds. As one of pliable William Simon's old friends at Salomon Brothers said, "No Federal Reserve bailout will work. Debt moratorium would set a process in motion that nobody can control."

The following are excerpts from Rinfret's letter to John Connally. The letter was obtained from Capitol Hill sources.

August 25, 1976

The Honorable John B. Connally
Vinson, Elkins, Searls, Connally and Smith
2100 First City National Bank Building
Houston, Texas 77002

Dear Governor Connally:

This letter is in response to your request for an economic program and economic ideas to be used in the campaign against Carter-Mondale by President Ford, the Republican Party and Republican candidates for office.

The basic assumption under which I am operating is that the Gallup Poll for July, which indicates a 68 to 32 percent popular vote distribution in favor of Jimmy Carter, is accurate.

The election is lost already to Jimmy Carter, assuming no Carter scandal, unless President Ford is willing to make a series of bold sweeps, daring ventures and lightning thrusts. Timidity will lose. Daring may win.

The economic proposals that follow contain elements of daring. Some of them would require fleshing out....

The President must be bold, must be daring and he must be adventuresome. He has nothing to lose because unless he is all of these, he is going to lose anyway.

He must shuck off the losing elements of his economic policy and shuck off the losers.

Here, then, are some ideas regarding an economic program for President Ford, taking into account the above elements:

One. Immediately replace Dr. Arthur Burns at the Federal Reserve. He is out of favor with Congress and is identified with high interest rates, low money availability and the credit squeeze of 1973-75. The replacement of Dr. Arthur Burns would (1) indicate the dissatisfaction of the President with tight money policies, and (2) give him the opportunity to request the appointment of someone new and vigorous. William Simon would make an extremely able Chairman of the Federal Reserve. He is young, vigorous and dynamic. The major caveat about Bill Simon is that he would have to be prepared to testify before Congress that he would pursue a low interest rate, high money supply, easy credit policy until full employment is achieved.

Two. Replace William Simon at the Treasury with Dr. Walter Heller. Walter Heller is an economic moderate. He remains in superb standing with Senators Humphrey and Kennedy....

Three. Make these changes on the basis that the President is putting in office now the team that he will work with for the next four years and that the people have the right to know who that team will be and, more importantly, the people have the right to see that team in action.

Four. . . . The President must, repeat must, come forward with a program of housing stimulation and a dedication to rouse America. It can be done by free enterprise and Government working together. Carter supports rent subsidies to stimulate housing. That won't work. There is not enough space here to outline a housing program, but it is available from us if you want it. This housing program is based upon the concept of private, not public, stimulation.

Five. Advocate the purchase of surplus farm commodities. At this very moment, farmers are terrified of their bumper crops rotting in the fields. Storage facilities appear to be a problem. It is in the national interest for the United States Government to buy up and store farm commodities. Famine threatens the world. A world draught (sic) could have a devastating impact on the world population to say nothing of farm prices and, therefore, inflation....

Six. Establish an RFC for the cities (the Reconstruction Finance Commission set up by President Hoover and later a New Deal Agency-ed.). New York still rankles many people. Early on, most Americans were against aid to New York. Then they looked at their own cities.... Go forward, recognize that cities are in economic and financial trouble. Reconstruct the RFC concept and apply it to cities. "Domestic aid before foreign aid."

Seven. Adapt the income tax structure to inflation. One of the most infuriating facts about inflation is that it throws people into higher income tax brackets while their real income goes down! The Government benefits unfairly from inflation. Inflation increases revenues to the Government while the private citizen does worse. Propose to the Congress a law which would adjust income tax brackets for inflation....

Eight. There are millions of small business people in this country. They are the forgotten element in the American economy. They have no lobby. They have few advocates.... No President, to the best of my knowledge, has ever come forward with an economic program that recognizes, advocates and assists the small entrepreneur.

Nine. Free from all taxation the interest and dividends received by the senior citizens....

In this letter I have tried to set out the ordinary ideas or the ordinary objectives. It goes without saying that the Administration is anti-inflation, anti-Government, anti-deficits. That's not good enough. What does the Administration have to offer as a positive program of economic growth in order to expand production and employment.

I repeat what I said at the beginning of this letter. Daring moves, lightning action and bold strokes may obtain victory for the President. Anything else loses.

Best regards as always,

Sincerely yours,
Pierre A. Rinfret