At least $25 billion to maintain the real level of defense expenditures at the 3 percent per annum rate of increase demanded by the administration. In congressional testimony Feb. 28, Defense Secretary Harold Brown stated that the Treasury would spend whatever was necessary to maintain defense expenditures.

The actual rate of federal borrowing will be, without Carter's projected cuts, **$115 billion per annum**—but only assuming that the administration's "moderate recession" scenario holds. Manufacturers Hanover Trust economists expect an additional **$20 billion** to be added to the budget deficit in 1980 due to loss in tax revenues. In the case of a sharp downturn in nominal economic activity, the loss in tax revenues and the increase in federal transfer payments due to a rise in the unemploymennt rate could easily bring the additional deficit up by **$50 billion.** The question of the economy's performance in terms of the misleading Gross National Product measure will be dealt with below. However, only administration employees are unwilling, at this point, to admit that the deficit is so out of control that the proposed cuts are a pathetic joke.

The monetary process, no longer the "lubricant" of real economic activity, has taken on a life of its own and become apparently uncontrollable. There is no clearer illustration of this than the relationship of the American interest rate spiral to the foreign markets during the weeks of Feb. 25 and March 4.

Dollar certificates of deposit, yielding over 17 percent, attracted a large short-term flow of funds out of mainly the Japanese yen and, to a lesser extent, the West German mark and Swiss franc. To stabilize the parity of these currencies, foreign central banks either drew on swap lines with the Federal Reserve or liquidated Treasury securities to obtain dollars with which to intervene on the foreign exchange markets.

The sudden 1 percent rise of the Treasury bill rate to 15 percent on March 5 was the result of a $1 billion sale for the account of the Bank of Japan, which coincided with a major Treasury refunding of bills. However, according to Wall Street analysts who note that foreign intervention has exceeded $2 billion in the past week, the Treasury has merely monetized the lost holdings of its paper ("printed money") out of fear of putting more of it on the markets.

Contrary to the usual logic, an inflow of funds due to higher interest rates is forcing interest rates upward, in a never-ceasing spiral. The Federal Reserve is helpless.

What inflation is

If inflation were merely a uniform rise in the general price level, it would not present a problem of any sort and, in any event, could be eliminated through indexation. If it were a differential rise in the levels of different

Friedmanism blew up Great Britain's economy

Schachtian economist Milton Friedman, currently in London to promote a new television series on the virtues of his economic theories, caused more damage to the British economy in the past year than Napoleon ever managed.

Under the guidance of Sir Keith Joseph, Britain's Industry Minister, Prime Minister Margaret Thatcher led the Tory government that assumed power 10 months ago in a binge of budget-cutting and credit stoppage, in an almost precise replica of the Carter administration's current proposals. Sir Keith identified the policies as the first full-scale application of Milton Friedman's economics to an industrial country.

However, rather than falling, Britain's inflation rate *tripled* from 6.6 percent per year during the last quarter of 1978 to roughly 20 percent now. With bank lending rates at 18 percent, only slightly higher than American rates, British companies are still borrowing every pound available, frustrating the British monetary authorities' attempt to continue the crunch. As a result of the high interest rates brought on by the monetary squeeze, Britain's most-used money supply measure rose at a 12 percent annual rate during the last half of 1979, against a 7 percent target rate. The Bank of England has been forced to inject more than $2 billion into the markets during the past four weeks to prevent a shutdown due to lack of liquidity.

Friedman, however, is nonplussed. Monetarism "causes some dislocation in the short run," he wrote in the London *Times* March 1.

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