



**FORTUNE**

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# A PLAN FOR SUBDUING INFLATION

The difficulties of settling on a national policy for coping with inflation are compounded by a prolonged Battle of the Books among economists. Those who think of themselves as fiscalists (or Keynesians or New Economists) often underestimate the importance of changes in the rate of money-supply growth. And those who think of themselves as monetarists often overestimate the possibilities of using changes in the rate of money-supply growth as an instrument for controlling inflation. Actually, monetary tightness pushes interest rates and unemployment up before it has any discernible effect on inflation.

In this dialogue, economist Allan H. Meltzer presents a specific plan for using a combination of monetary and fiscal restraint to subdue inflation. Meltzer is Maurice Falk Professor of Economics and Social Science at Carnegie-Mellon University in Pittsburgh. While unmistakably a monetarist, he recognizes that the federal budget (fiscal policy) heavily influences the decisions of the Fed (monetary policy).

The dialogue is a shortened version of a conversation between Professor Meltzer and two members of the FORTUNE editorial staff. Meltzer's words are printed in black, and those of the FORTUNE staffers in blue.

*Let's start out with a question that some might find a bit shocking—a devil's advocate question. Why try to end inflation? Ending inflation entails some costs—a promise to end inflation without costs is not credible. Why incur those costs? Why not try to learn to live with inflation?*

Well, it's certainly true that we can't stay where we are. Either we have to adjust to living with inflation or we have to get rid of inflation. The question is, which costs less. Is it less costly to move from where we are to a world in which there will be permanent inflation, or is it less costly to move back to a world in which there is no inflation?

I believe it is less costly to move back to the world of no inflation, if we choose a low-cost route. It is worth something—it is worth a lot—to avoid having to adjust to a world in which prices keep changing all the time and fixed values no longer have any meaning. Full adjustment to inflation means changing all bond contracts, all interest contracts, all labor contracts. Every interest rate, price, and wage in the society has to keep changing. That would be very hard for the public to get accustomed to. In countries that have partially made adjustments to inflation, people still find difficulty in thinking about prices and wages that always rise, and even in making simple shopping comparisons.

*But adjustment to inflation, through some such method as indexation, would reduce the inequities that are now associated with inflation? Isn't that so?*

Yes, that is so. It's important to distinguish between anticipated and unanticipated inflation. Unanticipated inflation has much greater costs, much greater social consequences. All economists agree that unanticipated inflation is costly. The costs of unanticipated inflation come when, as now, people try to protect themselves from an inflation they did not anticipate. Anticipated inflation—if everybody anticipates it correctly—has much smaller costs, much smaller social consequences. But people slide over the heart of the problem when they say that fully anticipated inflation involves only small costs. When we talk about fully anticipated inflation we are biting off a really big piece of bread.

To begin with, we know we can't make the adjustments completely. There's no way in which we can escalate every contract and adjust every asset and liability perfectly. Moreover, the costs of adjusting to inflation are very large. Permanent inflation means giving up a notion that we have lived with for several centuries: the notion that accounting values mean something. Learning to live with inflation means learning to live in a world in which the prices of all goods and services and all assets rise together, year after year.

Everyone would have to learn to think in a new way about capital investment and pension plans, for example. With 7 percent inflation, we would have prices doubling every ten years or so. Think what that would mean. Thirty years from now, prices would be something like eight times as high as now. And with 10 percent inflation, prices double in about seven years. Adjustment to that kind of change requires new ways of thinking about the present and the future. I believe it would take decades before people could fully adjust.

And what will we have when we get there? It's important to focus on that question. After decades of adjustment, assuming full adjustment, we would get to a system that at best is no better than

a system of price stability. I believe it's much easier to get back to price stability.

*A related point about learning to live with inflation. Even if we could achieve full adjustment so that there were no economic inequities at all resulting from inflation, there would still be psychological costs. Living with constant change in the economic arrangements of life would contribute to a sense of instability in other matters—contribute to the general sense of disorder that is one of the pervasive social problems of our times.*

*So it seems undeniable that price stability would be preferable to fully anticipated inflation if we could achieve price stability at moderate cost. But we run into the old trade-off problem. Any effort to get back to price stability seems to involve unemployment costs that many people consider too high.*

There are costs both ways. I would be misleading you and everyone else if I said there were no costs. But the costs of getting back to price stability depend very much upon what we do to get there. People who talk about the very large costs of returning to price stability generally talk about returning quickly. If we tried to end inflation quickly, we would have a major recession that would throw lots of people out of work, and even so we would fail to get back to price stability, because we would refuse to pay the cost in unemployment and lost production.

Within the range of knowledge we now have, it's not possible to get to price stability quickly and at low cost. But if we take a longer view, it may be possible to return to price stability at a tolerable cost.

*And you have a plan for doing that—for returning to price stability and doing so at a tolerable cost. What are the basic ingredients of your plan?*

My proposal has three interrelated elements. First, we should reduce the growth rate of the money supply—gradually, over a span of years. Notice, I do not say reduce the money supply, but rather reduce the growth rate of the money supply. Second, we should move

from deficit to surplus in the federal budget. The surplus should be used to retire debt. Third, we should keep the system of floating exchange rates. A main reason for this third element is to make sure that the effects of the other two elements on inflation are fully felt here at home, instead of being partly offset by the policies of other countries.

Those are the three parts of the program. How do I know that this is going to work? The honest answer is we can never be certain about the future. We do know that no inflation has been ended without reduction in the growth rate of money, and I don't believe we will keep the growth rate of money down if we continue to run deficits.

We cannot be certain about the timing of the response, so we want to have some flexibility. If we want to bring the inflation rate down with as little cost as possible, we have to keep both unemployment and inflation in mind throughout, not swing from overriding concern about one to overriding concern about the other.

*Let's talk a little about that third element in your plan. It's somewhat different in kind from the other two. Basically, its purpose appears to be to provide a sort of insulation, so that you can proceed with your domestic inflation-stopping policies without disrupting external economic relations in an interdependent world.*

Right, and other countries can do the same. Anti-inflation policies in Germany or Switzerland would not have succeeded this year if those countries had maintained a fixed exchange rate with the dollar, as they used to do.

*How could your plan possibly be applied in the present economic circumstances in the U.S.? We are in a period of practically no real growth, with unemployment that many people consider much too high. Some economists argue that we need faster growth in the money supply to stimulate the economy. So how do you go about cutting back on the growth rate of the money supply?*

In a word, gradually.

It's important to note that gradualism is not an incidental aspect of my proposal. It is central. During the postwar period, and particularly during the last ten years, we have accumulated a lot of evidence showing that change in the growth rate of money is the single most important weapon the government can use to control inflation. In general, efforts to control inflation failed because the authorities slammed down too hard on the money-supply growth rate and sent unemployment and interest rates moving up. Then, after overreacting against inflation, they proceeded to overreact against high interest rates and unemployment.

The reason people are pessimistic about the possibilities of halting inflation is that they think back to the experiences of the past ten years or so, and they recognize that efforts to halt inflation ended not with a lower but with a higher rate of inflation. That is not inevitable. It happened because we failed to keep both problems in mind.

*When you talk about halting inflation gradually, what kind of time period are you thinking of?*

We should be very happy indeed if we can get back to price stability in three years. I would want to take a three- to five-year horizon. Why three to five years? One reason is that we have some information about how long it has taken in the past. We've never experienced peacetime inflation as widespread, as large, and as pervasive as the current inflation. Still, the past may provide some useful guidance. It took roughly three years to get rid of the Eisenhower inflation. It took about two to three years to get rid of the early postwar inflation. So we have some general guides that make three to five years seem to be a reasonable time frame.

*You speak of a gradual reduction in the rate of money-supply growth. Reduction toward what? How far do you propose to go?*

For price stability, the optimum rate of money-supply growth would be a rate approximately equal to the basic growth

rate of the economy, and that's in the neighborhood of 3 to 4 percent. That would change, of course, depending for one thing on how fast the labor force grows—but around 3 to 4 percent is consistent with past experience. Some flexibility is desirable, and in practice the Fed should keep the money-supply growth rate between 2 and 6 percent. Then we would avoid the excesses of the Thirties on the deflationary side and the excesses of the Sixties on the inflationary side. Prices would fluctuate within a narrow range.

*The rate of money-supply growth is now around 6½ percent, and you want to reduce that to, say, 4 percent. Over what span of time?*

I want to allow two to three years to bring down the growth rate of money. It will take a year or two beyond that for the full effects on prices to be realized.

*While we're pinning down these figures, let's pin down what you mean by price stability. You've indicated that you certainly do not mean stability in anything like an absolute sense.*

Right. As a practical matter, 1½ percent a year in the consumer price index might be considered price stability. In the early Sixties we had an increase approaching 1½ percent a year in the C.P.I. with roughly constant wholesale prices, so that's probably a sensible goal. During that period, wages rose, but so did productivity, and unit labor costs remained roughly constant. We were in a period of relatively stable prices with falling unemployment. The money stock grew at about 3 or 4 percent.

*Measured against the kind of inflation we've experienced in the last several years, getting back to that kind of stability even over a span of three to five years seems a bold and ambitious goal. Do you feel pretty sure that your proposal could get us there?*

There's no reason to doubt that holding the growth rate of the money supply to the growth rate of the economy—3 to 4 percent—would hold the rise in the

consumer price index to less than 2 percent on average. But that is not my entire program for stopping inflation. My proposal is a package, not just a single element. Along with slowing the growth of money, I want to move from a deficit to a surplus in the federal budget. Without that, reducing the rate of money-supply growth would tend to bring increased unemployment and higher interest rates before we made much progress in slowing inflation.

*Why would it help matters so much to go from deficit to surplus in the federal budget?*

In reducing government spending, we shift resources from the government sector to the private economy—which means, generally, from lower-productivity uses to higher-productivity uses. We shift the use of resources in a desirable direction—that is, toward expanding output.

Using the budget surplus to retire debt, moreover, lowers interest rates. And that helps to expand economic activity and employment in housing and other industries where small changes in interest rates have large effects. And by keeping interest rates from rising, we keep the federal government and particularly the Federal Reserve from undoing the anti-inflation program by increasing the growth rate of money in order to hold down interest rates.

*Isn't it reasonable to say that some of the misadventures of governments in trying to subdue inflation have resulted from relying too much on fiscal or monetary restraint, rather than using both in the same direction? That is, failing to exert sufficient monetary restraint and therefore needing an excess of fiscal restraint, or, more commonly in recent years, being quite incontinent in fiscal matters and relying on monetary policy to do the job, with the result that the Fed has to lean too hard?*

In the past ten years or so the government has financed social-expenditure programs by running budget deficits. The financing raised interest rates. To hold down interest rates, the Federal

Reserve increased the growth rate of money. Inflation increased. Every now and then the Federal Reserve shifted to concern about inflation, but only for a time. They overresponded in one direction, then in the other.

*You speak of holding down interest rates by using the budget surplus to retire debt. What does it mean to retire debt, in this particular context? What is the mechanism?*

Basically, what it means is that as Treasury issues run off, they're not fully replaced. Government securities are continually maturing, and the Treasury has to roll over something like 100 billion dollars every year to stay in the same place. If there is a ten-billion budget surplus, they issue, say, 90 billion in securities instead of 100 billion, and some holders just get paid off with cashable government checks.

*Let's see—the government takes in ten billion more than it spends, and it uses that extra ten billion to pay off bondholders. In other words, there is a transfer of ten billion from taxpayers to owners of bonds. What are the economic effects of this transfer?*

Interest rates are lower. Output will be lower, too. As a result, the actual surplus will be smaller than the planned surplus. But that's a detail.

*Why will output be lower?*

It will be lower because government expenditures have some positive effect on output in the short run. My estimate is that with about 5 percent change in government expenditure we get 1 to 2 percent change in real output. There is a grain of truth to the Keynesian story which says that if the government spends more and runs a deficit, output increases for a time. I don't want to deny that grain of truth. If we cut federal spending, that's going to have some contractive effect. I would like to add, because I think it's important, that if we have a budget surplus and we run into trouble, we do not go back to a highly stimulative policy of expanding the money supply—back to inflation. in

other words. We cut taxes and maintain the growth rate of money.

*How big a budget surplus are you thinking of in your proposal? And over what period of time do you propose to swing from deficit to surplus?*

I would like to replace the present deficit of about five to eight billion with a surplus of between eight and ten billion. In other words, I propose a reduction of about 15 billion in the federal budget. And I would like to see that happen as soon as possible. I do not advocate gradualism here.

*What you're proposing would be very difficult in political terms. That doesn't mean it's wrong, of course, but the political difficulty is a consideration you can't just set aside.*

It's true that every item in the budget has defenders. But it's hard to see why it isn't possible to cut federal spending by 5 percent. We have a 300-billion-dollar budget now. Not long ago Lyndon Johnson was talking about hoping to hold the line at 100 billion. Even with inflation, that's quite an increase. The defenders have to explain why an extra 15 billion a year in federal spending—300 billion instead of, say, 285 billion—is more important than reducing inflation. I don't think the public believes that, and I certainly don't believe it.

*What are some particular areas of the federal budget where you think it's possible to make sizable cuts?*

Well, let's go over the parts of the budget that have grown most rapidly. One of them, of course, has been aid to state and local governments. Total state expenditures have risen very dramatically over the entire postwar period, but the federal share of them has risen even more dramatically. In 1946-47 about 8 percent of state and local government expenditures was being paid by the fed-

eral government. We're now up to 22 percent. So federal aid to state and local governments is a candidate for cutting. Some programs are desirable, but it seems to me that we have to ask ourselves, do we need them all now, or would it be better to try to phase some of them out and transfer the resources to more productive uses?

There's the HUD budget—we're spending billions of dollars every year to build subsidized housing. It isn't at all clear that the programs meet the elementary test of a cost-benefit analysis, let alone the more stringent test of using resources most efficiently. So this is a very good place for cutting the budget and returning to the market system.

This is far from a complete list. The staffs of many regulatory commissions have expanded in recent years. I would certainly include the space program as a candidate for cutting, too. There are many places to cut. All of them have their proponents, of course. But let's ask the right question, namely, is maintaining expenditures at the present level more valuable to the citizenry than trying to reduce the rate of inflation by, say, five percentage points in the next three to five years? It seems to me that, for the public as a whole, there is no comparison. So I don't see that there's really a major issue here.

*What do you reply to those who say—and some economists certainly would say—that if you tried to cut federal spending by 15 billion over the next year or so, especially while holding down or reducing the rate of money-supply growth, the result would be a drastic increase in unemployment?*

They believe, and I do not, that the budget is the key element guiding the economy. I believe the budget is one element affecting the economy and the money supply. My own guess, as I indicated earlier, is that the effect on output would be no greater than 1 to 2 percent. That means we may have a mild recession. We can keep the recession mild by maintaining the growth rate of the money supply close to its current

range, and only gradually lowering the rate. That way, we help to absorb resources released by the cut in government spending. Experience tends to support the view that large changes in the budget have small effects on real income.

*But even a small contraction in output can bring some increase in unemployment. And in the society we live in, even a small increase in the unemployment rate is considered to be very important. There does seem to have been some weakening recently in devotion to the concept of full employment, but its hold on public opinion and on policy is still very strong.*

That's true, but let's consider what an increase in the unemployment rate means. Suppose the rate increases from 5 percent to 6 percent. That means an average worker spends twelve to fifteen weeks finding a job instead of nine to twelve weeks. That's a big change, that's a big loss of real income. But is that too high a price to pay to reduce the rate of inflation? I don't think so. Another question is whether a period of increased unemployment imposes a higher cost than the cost of trying to insure ourselves against inflation by escalating all contracts. Again, it seems to me that the answer is no.

*Still, with 6 percent unemployment there would be a lot of pressure on government to move back to inflationary policies. And some economists would maintain that with your proposal unemployment might go above 6 percent.*

Try 7 percent. What would a 7 percent unemployment rate mean? It would mean fourteen to sixteen weeks between jobs. And that's what happened in 1961. One main reason the unemployment rate rises is that it takes workers longer to find jobs. Of course, the difference between ten weeks and fifteen weeks means a lot to the man who is unemployed. I don't want to deny the cost. But I also don't want to set it up as an absolute, to say that everything has to adjust to this cost. There are costs of adjusting to per-

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manent inflation to set on the other side of the ledger.

*It's important to keep in mind, though, that we are not dealing with a simple, linear relationship between the costs of unemployment and the average length of time between jobs. For one thing, the difference between an average of ten weeks and an average of fifteen translates into much more than five weeks for some of the unemployed. Also, the effects of being out of work accumulate over time. People run out of savings. They become discouraged. Some give up. There may be lasting psychological damage to unemployed people and to their families.*

Well, you also have to consider the gains that may be offsetting the losses. But I'm willing to concede the truth of what you say. It is a strong argument for gradualism, for being careful, for being willing to slow down the rate at which you attempt to end the inflation, for keeping a focus on two goals rather than just one. I do want to keep both goals in mind. I want to bring the inflation rate *and* the unemployment rate down. But I believe that you can't do both at the same time, so I want to put together a package. Let's try a package, keeping in mind that there are costs and benefits on both sides.

My proposal takes into account that very small changes in the money supply can have potentially large effects. Therefore, we want to make sure that the changes in the growth rate of the money supply are relatively small. But they must be consistent in direction. If I were running this policy, I would announce in advance what I intend to do. I would go a little bit faster if things work out slightly better than I had hoped, and a little bit slower if things work out worse. But I would hold the direction.

Constancy of direction is the really essential thing. The great danger is that one goal will be paramount for six months and the other goal for the following six months, so that we wobble between those two objectives—as we have in the past—and never solve the inflation problem.

END

**Atlas  
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# THE MYTH OF

## INEVITABLE INFLATION

A noted economist calls for international action

JACQUES RUEFF

*French economist Jacques Rueff, a former deputy governor of the Bank of France, is a member of the French Academy and the Economic and Social Council. His article is adapted from the conservative Paris daily "Le Figaro." © 1974 "Le Figaro" and Jacques Rueff.*

**A** wave of inflation is sweeping over the West. No country is exempt. Like the animals with the plague in La Fontaine's fable, "all did not die, but all were stricken."

A phenomenon so general must have a common cause. It cannot be traced to the individual characteristics of domestic financial systems, which vary greatly. I do not wish to discourage essential efforts to restore internal equilibrium; on the contrary. But they can bear fruit only when the deepseated cause of generalized inflation has been dealt with.

In a monetary system which makes a distinction between buyer and seller, desire prompts demand, and the buyer tries to obtain what he seeks through the payment of money. Thus all demand is subject to the supply of money. Desire is infinite, incessant, always unfulfilled; demand is strictly limited, always checked in its flight by the monetary sacrifices it necessitates.

Let us imagine a village market to which each housewife brings goods for sale—eggs, butter, poultry—and a reserve of cash that enables her to make possible purchases over and above her sales. If every housewife wants to go home in the evening with the same amount of cash she had when she arrived, she can buy on the market only the equivalent of her sales. All demand will be limited by supply of equal value. Desire will remain boundless, but demand will be fettered. In such circumstances prices will not vary. For global demand to exceed the global value of supply—and therefore for the overall level of prices to increase—it is necessary either that certain buyers be ready to leave the market with a cash balance smaller than they had when they arrived or that they should have met a banker who, by opening a line of credit, should have made available additional cash.

The mechanism designed to maintain overall cash balances on a level with wanted cash balances—that is, to fetter demand—are under certain conditions real and effective. There are, however, many monetary systems which, by obstructing such adjustments, open wide the sluices of inflation.

A first breach is inconvertible currency. This is the system of the "money printing press" which exists only



rarely. Almost always, financing is secured through the central bank with bills—essentially Treasury bills—made eligible for discount. This is the process used to finance cash requirements when budget deficits exceed the Government's borrowing capacity. In practice, spontaneous adjustments cause a return to the Treasury of part of the unwanted cash balances the process creates. Subject to this mitigation, demand is effectively unfettered, and one has inflation.

A second breach, presently closed, is the gold exchange standard. Central banks are authorized to create national currency, not only for gold or bills expressed in national currency (Treasury and commercial bills of limited duration), but also for foreign exchange payable in gold—that is, dollars. When unwanted cash balances were created, holders of dollars had the option of demanding their refund in gold in New York. They used this opportunity freely and the United States saw its gold reserves dwindle until on March 7, 1968 (and by law on Aug. 15, 1971) it made its currency inconvertible to gold.

From that moment, the holders of unwanted dollars could get rid of them only by demanding real goods, shares, or non-American currencies. Demand was truly unleashed on all markets of the West, provoking huge movements of capital across all frontiers and, in all countries concerned, increasingly rapid price rises.

The generalization of inflation which the gold exchange standard produced was strictly similar to what I had observed in 1922-1933. However, it should be noted that the purchase of dollars by non-American central banks—the immediate cause of Western inflation—was freely decided by the leading non-American countries; the United States, if it benefited widely by it, never asked for it.

A third breach, which remains wide open, is the Eurodollar and Eurocurrencies. On March 13 of last year, after an exchange crisis had prompted the closing of all Western exchanges, the expanded Group of Ten (the EEC, plus Sweden, Japan, the United States, and Canada) decided that "the central banks of the associated countries would no longer intervene to support the dollar." This was the de facto death of the gold exchange standard. It should have deprived world inflation of its principal source of fuel. Instead a process of monetary creation, which produced Eurocurrencies, was greatly accelerated.

It had originated in 1951-52, through an initiative of the Banque Commerciale pour l'Europe du Nord of Paris, and the Moscow Narodny Bank of London, which held on account for the Soviet Union large deposits of dollars in the U.S. Fearing, because of the Cold War, that these dollars might be blocked or confiscated, the banks decided to withdraw them from the U.S. and offer them to possible buyers on non-American markets, notably European ones. Hence the term "Euromarkets." By a spontaneous reaction, the creation of deposits in "Eurodollars," extended later to other "Eurocurrencies," was accelerated.

Last Dec. 31, the foreign commitments of eight of the most important countries amounted to \$191 billion, an increase of \$60 billion over the same date the previous year. These are the dollars which, added to

national currency issues and endowing them with additional purchasing power, have unleashed a flood of demand in all the countries of the West.

Thus the supplementary currency created by the Eurobanks in effect restored the abolished mechanism of the gold exchange standard and prolonged and amplified its effects. These, added to the oil crisis—which it helped substantially to provoke—have accelerated the rise in prices everywhere.

The mechanism of Eurocurrencies, replacing the gold exchange standard, then, has become the main instrument of the inflation which ravages the West.

The problem of financial recovery involves the fettering of demand—that is, eliminating the conditions which have unfettered it. Today there are only two processes which generate a surplus of global demand:

—Excessive public expenditure in relation to state levies (taxes and loans);

—Creation of money through the mechanism of Euromarkets.

Excessive public expenditure is certainly an important factor of inflation, but in general it is limited by the efforts of government to maintain financial order. In a system of monetary instability, a budgetary deficit is more an effect than a cause of financial disorder.

In present conditions, in almost all Western countries, the restoration of monetary order requires the drying up of the inexhaustible source of money made available by the development of Eurocurrencies. Let it be dried up, and budgetary equilibrium will follow.

It is essential that the mechanism of the Euromarkets be systematically explored. A committee of competent experts should be quickly called upon to formulate a set of remedies to put an end to the creation and use of supplementary currencies arising from Euromarkets.

It is intolerable that in all countries the banking system should have access to a double system of monetary creation: the national system, strictly and rigidly controlled by the central bank, lender in the last resort and guardian of the national currency, and the Euromarket, free of all regulation and restriction and of all control by national or international authorities. An international agreement should be concluded prohibiting the creation of non-national currencies by national monetary systems.

If such a radical step cannot be taken, one should at least insist that the opening of all lines of credit in foreign currency to nonresidents should be subject to the same costs and regulations and fiscal burdens as credits in the national currency. This step alone probably would greatly slow, if not suppress altogether, the creation of Eurocurrency.

The objection may be raised that the necessary steps to dry up the flow of Eurodollars require the approval of the United States, which will never grant it. I refuse to believe that the great country which has conquered the moon by applying faultless calculations can refuse to endorse systematic investigation of methods suitable to ward off the mortal dangers of generalized inflation. It is intolerable that there should be uncertainty about an instrument which under our very eyes compromises the fate of all the countries where it is used.

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However paradoxical it may seem, what is necessary is the creation on an international basis of a monetary National Aeronautics and Space Administration. This and this alone will make it possible to give efforts at austerity—necessary but exhausting—the required effectiveness through a general currency reform.

The objection may be raised that this drying up of inflation arising from Eurocurrencies would endanger expansion, dear to all governments enamored of social progress. I am convinced, however, that the end of inflation arising from Euromarkets would immediately provoke a substantial fall in all interest rates and as a result would lead to a huge expansion of investments. At the same time, it would render unnecessary strikes and wage claims which aim only at correcting the inevitable effects of inflationary pressures, leaving only those legitimate demands of labor aimed at a fairer distribution of the gains of productivity, itself much enhanced by an impressive rise in the level of investments. Employment would reach a high level and be freed from the threat of controls and the dangers of recession.

Thus the West would rediscover its chance of survival and the certainty of social progress, which now seems very much endangered. ■