DOMESTIC CREDIT MARKETS

A politically induced recession

"Buy pork, not beef," chief presidential inflation fighter Alfred E. Kahn told the American public on May 25, following the announcement that the consumer price index rose 1.1 percent in April. "Use less gasoline. Don't speculate," Kahn added. "There is no way we can avoid a decline in our standard of living. All we can do is try to adapt to it."

A second, unnamed official in the Administration's "anti-inflation" team told the *Washington Post* on May 26 that it would take unemployment rates close to 10 percent to reverse a new surge in the inflation rate due to further industrial wage and price increases.

These statements are not off the cuff—they are calculated to induce depression psychology in the American population and to torpedo the U.S. economy. The growing signs of economic catastrophe in the U.S. economy, in fact, are all symptoms of a *politically induced* recession, whose key determinants are a rigged oil and gasoline crisis, artifically hyped interest rates, and calculated depression-mongering by the Carter Administration's economic spokesmen. Energy Czar Schlesinger, Federal Reserve Chairman Miller, and Treasury Secretary Blumenthal—who are pulling the strings in the oil hoax, interest rates, and other elements of the recession scenario—fully intend to provoke economic crisis which will pave the way for an International Monetary Fund "surveillance" over the U.S. economy.

The culprit behind the recent tumble in domestic auto sales—they dropped a staggering 25.7 percent in mid-May from year-earlier levels—is Energy Czar Schlesinger's managed gasoline shortages (see ENERGY). Mid-May statistics showed that prospective car buyers are running from large and medium-sized cars, in fear of soaring gasoline prices and dwindling availability. Sales of small, "fuel-efficient" autos are taking up some of the slack: however, the automakers' profit margins are much slimmer on their compact and subcompact models. Chrysler announced May 29 that it will permanently close its Hamtramck, Mich. assembly plant and idle 2,200 workers this summer.

Depression mentality among consumers which has been fueled by sensationalized media coverage of dry gas pumps and soaring meat prices, has already taken its toll on overall retail sales. These advanced merely 0.5 percent in April, and have now trailed the rate of inflation every month this year.

The latest figures from the nation's savings and loan associations indicate that disintermediation has begun—i.e., the bypassing of savings deposits for higher-yielding Treasury securities and other money-market instruments—and that housing is in for a severe slump. The Federal Home Loan Bank Board reported on May 29 that savings and loan institutions experienced a $1.5 billion outflow of funds in April, the first outflow since the 1974 recession and a record.

The only reason this form of disintermediation didn't appear sooner is that starting last year S & Ls were allowed to issue six-month money-market certificates, pegged above the Treasury bill rate, to attract funds. Since the end of April, however, when banking regulators reduced by 0.25 percent the amount of interest S & Ls can pay on the certificates and outlawed the compounding of interest on them—Einstein must have turned over in his grave," one banking source said—the institutions have had increasing difficulty in attracting funds. May inflows to S & Ls have run about 25 percent below a year earlier, FHLBB Chairman Robert McKinney (who has already turned in his resignation papers) told a Senate Banking Committee in the middle of the month.

The April savings outflow figures "give us all cause for concern," says Donald Hovde, president of the National Association of Realtors. Across the country housing experts are revising downward their predictions of a mild decline in the housing market this year.

It is appropriate to emphasize here that every recession of the recent past—and throughout history, has been politically determined. In August of 1974 former Federal Reserve Chairman Arthur Burns came in and "spiked the Federal funds rate," as one money market analyst reminisced last week. Burns cut off credit to an economy which had been previously wracked by speculative runup in commodity prices over 1972-73, followed by a 400 percent increase in the price of oil, and an unprecedented buildup in business inventories that continued—involuntarily—through the end of 1974. All those "preconditions" of the recession were themselves the fruit of incompetent credit and investment and tax as well as political policies—not some objective factors of economics.

—Lydia Schulman

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