absurd. Look at the banks. Back in 1982, as the Third World debt crisis peaked, foreign governments pleaded with Volcker to ease up on interest rates. The chairman finally relented, believing that the worst recession since the thirties had broken inflation and that continued high rates threatened the stability of the Third World and the large banks that are its creditors.

Amazingly, the banks still expected high inflation. The expectation of renewed inflation caused them to delay for several years any realistic approach to their loans to Latin America and Africa. Bank economists, egged on by weekly apocalyptic pronouncements by Reagan's budget director, David Stockman, assured their bosses that it would only be a matter of time before the prices of oil, copper, and raw materials in the Third World soared, making it possible for countries like Mexico to pay back the loans. Obviously, that inflation never materialized and the Third World remains mired in debt.

In retrospect, the banks should have built up their reserves in order to deal with the loans. But the belief that reflation was just around the corner caused creditors and debtors to dig themselves in deeper, thus delaying for some years the recovery of the Third World from the Volcker recession of 1981-82.

Just Take This Medicine

We agree with Paul Craig Roberts that the danger of inflation is widely overestimated. But that doesn't mean there aren't steps we can take to make sure that it does not become a serious threat to our economy. Pushing up interest rates, as the Federal Reserve Board has been doing, is *not* the right step. If the Fed continues along this path, a recession is practically certain. Why risk such an unhappy result when, instead of using the blunderbuss approach of higher interest rates with the overkill of the economy that they usually provide, we can take specific actions aimed directly at the *causes* of inflation?

The major cause of double-digit inflation in twentieth century America has been specific shortages of things people want. The inflation of the late 1940s was due to the shortage of consumer goods at war's end. As the economy got back on a peacetime footing, inflation abated. Interest rates didn't have to go sky-high; in fact, in 1948, as inflation cooled, the Fed's discount rate was 1.5 percent.

The problem with shortages held true in the 1970s, even as lots of people tried to place the principal blame for inflation on something else. Liberals pinned the blame on LBJ's escalation of the Vietnam war. Monetarists fingered Arthur Burns, Nixon's Federal Reserve chairman, who sped up the money supply in time for the 1972 election. Other culprits were the rise in wages of auto workers—and those in other industries—without increases in productivity and the 1973 wheat deal with the Russians, which drove up prices by reducing domestic supply.

All these things did, indeed, contribute to the inflationary spiral of the time. But the biggest culprit was a shortage—a shortage of oil brought on by OPEC, which we can thank for a 26 percent price hike in 1973-74 and a 56 percent boost in 1979-80. (Not surprisingly, the only years other than 1946-47 that inflation actually went into double digits were 1974 and 1979-1980.) Because the price of domestically produced oil followed OPEC's lead, the fact that we imported less oil than, say, Japan was of no help. Indeed, the OPEC hike was particularly inflationary in America because we guzzle far more oil than any other country on earth.

Since the main cause of the higher prices of recent months has once again been OPEC, oil prices should remain our primary target. How can we persuade OPEC to be reasonable? One way is to sell oil from our Strategic Petroleum Reserve to keep prices down and stem panic caused by shortages like the Valdez incident. Another way is to enact standby gasoline rationing authority, and make it clear that we will use it if prices get out of line. Because we consume so much of the world's oil, the prospect of a sudden reduction of demand through rationing should have a sobering effect on the oil-producing nations. And they are not unaware of the danger that too high a price will decrease demand, as it did in the early eighties. Their concern was enough to prompt this story in *The New York Times* of March 29: "OPEC Wants Its Prices to Stay Under a $20 Top."

The budget deficit is an obvious and often-cited cause of today's rising prices. Here are others and what can be done about them:

► **Medical costs.** In marked contrast to the mostly single-digit inflation we have been experiencing through most of this decade, Medicare payments to doctors have been rising 17 percent per year. Fourteen billion dollars is wasted each year on unnecessary surgery. The answer in both cases is tough regulation of doctors rather than higher interest rates.

► **Trade barriers.** Tariffs and quotas can be a good thing—a way of helping an industry that's on the mend. But too many barriers protect inefficient industries and keep prices high. Hobart Rowen recently made a convincing case against steel quotas that effectively limit imports to 20.2 percent of U.S. consumption. Because of those quotas, steel prices increased

Continued on page 30.

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It's worth looking at the way the Federal Reserve has panicked over inflation. In August 1987, when interest rates rose slightly, the Fed became alarmed, seeing it as a sign that the economy was over-heating. The board reasoned that a hike in the discount rate—the money it lends banks—would dispel the incipient inflation and allow interest rates to fall. Instead, the Fed went too far: interest rates shot up and contributed to the stock market crash that fall. Frightened out of its wits, the Fed quickly changed its tune and pumped out money to stop the wealth destruction that threatened the economy. As *The Economist* put it: "Sixteen months later, all members of that overcrowded club, the Hindsight Forecasters, agree that the rise in the discount rate tipped an overvalued stockmarket into the plunge of October 1987."

After this new disaster, the Federal Reserve Board drew up a list of inflation indicators to reassure the public that it would not again raise interest rates unless the danger signals were real. According to the Fed, a falling dollar, a rising price of gold, and rising commodity prices would be its indicators of inflationary pressures, justifying higher interest rates to slow the economy.

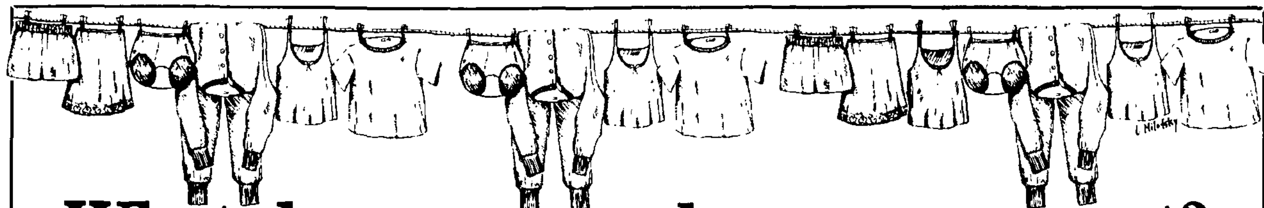
Exactly one year later, in August 1988, three hours before a Treasury financing, the Fed used its levers to raise interest rates, even though its own indicators did not support its action. The dollar was actually rising, the price of gold was falling, and the upward movement in commodity prices was almost entirely related to drought and drought-induced speculation from the summer's notorious heat-wave.

The Fed's many apologists, ranging from Martin Feldstein to Fred Bergsten and Robert Reich, invented a new theory to justify the Fed's action: Demand was growing faster than capacity, and, since business was not investing, inflation was inevitable.

This theory lasted a few days until the Commerce Department released its survey in September showing that real business spending on new plants and equipment was, in fact, surging—up 11.6 percent over the previous year. According to the department's report, investment would be a major source of U.S. economic growth in coming months.

"Okay," you're thinking. "Maybe this time it's for real. What about the reports of price hikes of recent months?" Maybe. But look at the facts. It's worth considering that there are still many factors keeping inflation at bay. Indeed, it's hard to believe that the economy is so overheated that there's just no way we can keep up.

One is the slow growth in money. The fact is that the Fed has *not* been gunning the engines the past



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two years, thus it's hard to imagine a monetary inflation.

A second factor holding down inflation has been the surge in U.S. manufacturing productivity during the 1980s. This is crucial because production has been able to keep up with wages. Since the recovery began in 1982, productivity has grown at a 4.5 percent annual rate—about twice the post-war average. The benefits of this productivity growth have taken the form of lower prices for manufactured products rather than higher wages and profits. Indeed, wages, while showing some rise recently, still seem to be under control. In 1988, a Labor Department survey found that only 4 of every 10 labor contracts include an automatic cost-of-living-adjustment compared to 6 out of 10 in 1978.

A third force working against inflation is demographics. The baby boom generation hit the economy in the 1980s, a surge of young adults who have low saving rates. As the boomers age, the personal savings rate should rise in the 1990s. As consumption falls as a share of disposable income, there will be less demand and hence less pressure for prices to rise.

A fourth factor is weak world demand. Before the 1981-82 recession, heavy lending to Third World countries was fueling demand for Western exports. The debt crisis precludes a near-term resumption of large-scale lending and has slowed the pace of internal development in most Third World countries. If demand is weak in the Third World, that's even less of a tug on our capacity.

We must resist the idea of inevitable inflation or we will suffer a needless recession. If we ever come to accept that it is a responsible, statesman-like act to ruin ventures and throw millions of people out of work with high interest rates, we will have become a hard-hearted people. □

an average of 15 percent in 1987 and 1988—almost four times the 4.4 percent rise in the Consumer Price Index in 1988.

This obviously had ramifications throughout the economy. Caterpillar Inc., the construction equipment company, contends that its prices rose some 8 to 30 percent because of the quotas—versus only 4 to 8 percent had they not been in place.

The steel quota should not be extended when it expires on September 30, and we should get rid of other barriers that are inflationary.

► **Lack of Leadership**. Presidential jawboning got a bad name in the 1970s when the Ford administration haplessly tried to fight soaring inflation with WIN buttons. But White House pressure can work. In 1962, President Kennedy staved off a major $6 a ton increase in steel prices. Unlike Ford, Kennedy put his political muscle into the fight. He went on national television to name names and denounce the hike. He transferred government contracts to companies that kept prices in line. At the Justice Department, Robert Kennedy began a grand jury probe for antitrust violations. The result: the hike was repealed.

One example of where we need White House leadership today is in the area of "cost-push" inflation—targeting bad agreements where wages outstrip productivity. This is less of a problem than it used to be, but labor costs have begun to rise. (In the last quarter of 1988 wages grew wages at a 5.5 percent annual rate.) The president should have a Noonan speech in the can before the next inflationary settlement.

► **The Weaker Dollar**. The lower dollar has been good news for American exports but bad for inflation. Because the dollar is so cheap, manufacturers have been able to raise their prices and still be competitive abroad. Take Dow Chemical. Back in the early eighties, when the dollar was high, Dow had to lower its prices to compete in world markets. As *The New York Times* pointed out, it can now raise them and still be competitive abroad. Last year the company did just that, raising its prices 14 percent. Other companies have followed suit, and the president needs to go after them with zeal.

► **Monopoly pricing.** There's nothing inherently terrible about an industry being concentrated in the hands of a few companies. The problem is that concentration leads to high prices and closed doors so that no one is open to join the fray. Since we're heading towards this situation in the airline industry, the proposed merger of Delta and American ought to make everyone anxious.

Of course, there are other things Washington could do—like holding back on some cost-of-living adjustments. But beyond the federal response, the private sector must do something about controlling costs. (Incredibly, consumer prices have risen 46 percent since 1979, while producer prices are up 25 percent—proof positive that service costs are way up.)

Fortunately, there is something to be done. Businesses ought to band together to fight hotels, airlines, and other businesses that take advantage of expense accounts.

There is no more potent weapon against inflation than consumer resistance. That is why we were comforted to see a long article by Louis Uchitelle in *The New York Times* on March 31 with this headline: "Rising Prices: Consumers Are Beginning to Balk."

Peter S. Greenberg of the *Los Angeles Times* saw just this kind of anti-inflation tendency in Manhattan.

"Yes," said the clerk at a posh hotel. "We have a room."

"The rate," asked the customer.

"$198."

"Too much," the customer said, walking away.

Eventually the two settled on $119.

—Matthew Cooper for the Editors

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The Juice Ain't No Use

Why the death penalty won't work in D.C.

by Jason DeParle

The record-setting murder rate that has gained Washington top network billing has many city residents nervous, and I'm one of them. I frequently walk home late—past midnight—though lately I've been doing so less often and with greater unease. The bars were shutting down for the night a few months ago when my walk home took me past two speeding automobiles, with someone leaning out of the second and firing a gun at the first. It happened so suddenly that my ears kept insisting it was only a backfire, though my eyes, like those of other sidewalk gawkers, knew it was the real thing. Climbing into a taxi the next week, I gave the driver my address, only to have him explain that the corner outside my house had been the scene of a recent murder.

I was flipping the radio dial a few months ago when I caught a talk-show guest who suggested he had the solution to the District's crime problem: executions. The speaker was Gary Hankins of the D.C. Fraternal Order of Police, and he isn't confining his campaign to late-night radio. The F.O.P. has asked the city council to establish a death penalty for those who murder in order to advance another criminal activity—rape, say, or robbery, or (especially) the distribution of drugs. "It's not going to deter people from killing in anger," Hankins conceded. "[But] it will deter, I am convinced that it will deter, people who kill because of an assessment of human life versus profits in illegal activities." Criminals, Hankins said, know that "there is no chance of being executed in the District—none."

While, as a police officer, Hankins no doubt knows more about criminals than I do, the idea that "there is no chance of being executed in the District" is a strange one. After all, there have already been more than 130 murders in the District this year, and about half of them were drug-related—many "execution-style." By contrast, we've had only 107 executions in all of the United States during the past 20 years.

Little hangmen

Not only is the District's privately operated death penalty more prolific than the run-of-the-mill, legislated kind, it's also more swift and sure. No lengthy appeals. No last-minute whining from the ACLU. What's more, the executions take place in full public view, where the death penalty's didactic value is highest. This, after all, is what Hankins and others say they want: "During some of the 19th century here, public executions and hangings were indeed well-attended," Hankins said. "Vendors sold little hangmen, and it was quite a spectacle. And it worked." Now, D.C. residents don't even have to hassle with the crowds to see the corpses; they can just turn on the nightly news.

Oddly enough, though, for all its dispatch, ruthlessness, and visibility, D.C.'s privatized death penalty doesn't seem to be acting as much of a deterrent. Scientifically, of course, this is awfully hard to prove. Lots of people in Washington *haven't* com-

Jason DeParle is an editor of The Washington Monthly.

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