In these remarks, Mr. Wriston of Citibank reproves the news media, which rebels violently at any intrusion of Government into its right of free speech, for not adequately reporting or criticizing Government's increasing denial of individual liberty in economic matters. The example used is the generally uncritical reporting by the news media of the Government's attempt to blame the Nation's "inflation" problem, fostered primarily by Government, on the ignoble desires of leaders in the private sector and to repress the signs of inflating (rising wages and price levels) by severely limiting the freedom of U.S. citizens to act on these matters as they see fit. Leaders of the news media are reminded that a loss of individual liberty in one area cannot but undermine liberty in other areas.

Although we agree with nearly all of Mr. Wriston's views printed here, he neglects to mention a crucial aspect of the inflating process, namely, that private bankers have been the accomplices of Government officials in fostering inflating. If Government did not run large budget deficits and if the Fed did not provide bank reserves for easier funding of those deficits, prolonged inflating could not have occurred. However, if private bankers had practiced sound commercial banking, inflating would have been substantially less than it was, regardless of Government and Fed policies. Unfortunately, modern private bankers such as Mr. Wriston apparently have forgotten, if they ever learned, the art of sound commercial banking.

Every business has its hazards. People in the news business complain that one of their own special hazards is taking the blame for all the bad news in the world. And since much of the bad news nowadays frequently has something to do with governments, it is governments especially that are often angry at the press. In fact, there are about 90 countries in the world today whose leaders object to bad news so much that they have abolished the free press. They operate on the theory that if bad news is not reported, it doesn't exist.

Editors and publishers in countries where the press remains free recognize this attitude for the threat that it is. They combat it constantly by defending their right to publish the news as they see it, and also by reminding the public that the First Amendment is the very linchpin of our liberty.

To get blamed for acts you do not commit, or for the bad news created by somebody else, is a hazard that is not unique to the news business. It happens to bankers, businessmen, labor leaders, and almost anyone else involved in handling money. And we in the business community are being treated to an especially strong dose of this misdirected anger right now.

The bad news that business has been reporting is inflation. The price of everything is going up, which is another way of saying that the value of our money is going down. Since only the government prints money, it does not like people being told that the value of its product is deteriorating. So we find government spokesmen traveling around the country telling people that the real villains in this inflation story are the businessmen who are raising their prices or the labor unions that are raising wages.

Does Suppressing Bad News Solve the Problem?

But rising prices do not cause inflation, they report it. When a government — any government — starts trying to eliminate inflation by controlling wages and prices, what it is really doing is asking all of us to suppress the bad news that it has printed too much money. The way to stop the bad news about the deteriorating value of our money, according to government, is to conceal it from the people by freezing wages and prices.

Editors, publishers, and reporters are very familiar with the kind of thinking that says if newspapers would only stop reporting political malpractice, then people would be less critical, even though they would be deceived. You all know what that kind of thinking leads to, and you resist it. However, few seem to recognize with any clarity the same phenomenon when it appears in the economic arena.

It might be helpful to remember that prices and wages represent an essential form of economic speech, and that money is just another form of information. When the freedom of this economic speech is restricted, we are all not only penalized, but we are also misled. In Governor Wallich's words: "Inflation is like a country where nobody speaks the truth."

Prices enable consumers to communicate with producers and tell them what they want or don't want. If prices are censored, or frozen, they cannot tell producers what goods or services people want or don't want to purchase. Examples abound.

Money Supply Is the Fastest Growth Industry

When the government artificially restrained prices for natural gas, the price told consumers that this form of energy was relatively cheap and in ample supply. Believing what they heard, people built houses heated with natural gas. The same controlled price told producers that people didn't want much natural gas — it was not in demand — and therefore they had no incentive to increase production. Everybody was being deceived and we all know about the results in the...
have to sell. The only way to keep that from happening is frequently managed to do it with gold and silver.

and price controls can make the government's paper argumentum baculinum, or the argument of the club. going to represent a smaller claim on whatever people produce goods and services, then every piece of paper is the pieces of paper faster than the private sector can flowing into Europe from Mexico and Peru formed the basis for an inflation that in the end destroyed the Spanish Empire.

Every time a new silver consignment arrived at Seville, a ripple of price increases spread across Europe because there was suddenly more money with which to buy things. And because the effect was always felt first and strongest in Spain, that country continuously occupied top place in the inflationary table. Spanish costs became increasingly uncompetitive, and the Dutch got rich buying cheaper goods in the north and shipping them south.

The Spanish solution was to sink merchant ships and hang businessmen. You can find the same story of unsuccessful repression of economic news being repeated all the way back to the Roman Emperor Diocletian, who may have coined the best name yet for government price controls: the argumentum baculinum, or the argument of the club.

What Diocletian could not accomplish with the Roman legions and Philip the Second could not do with the Spanish Armada, the Council on Wage and Price Stability now proposes to do with a staff of 233 civil servants. Once again we hear repeated the rephrasing of Diocletian’s edict, which began with a notable assertion: “Uncontrolled economic activity is a religion of the godless.”

**Deja vu on the Late Late Show**

Whatever the government — any government — decides to call its price control methods doesn’t really matter. Whether it’s jawboning, incomes policy, voluntary guidelines, mandatory ceilings, or an economic police state, it all comes back to Diocletian’s argumentum baculinum. All it means is that the government threatens to hit you harder later on if you don’t behave after it hits you the first time. History demonstrates that once a government picks up that club, it finds it very hard to put it down again.

But we Americans do not have to look back to Spain or Rome to find examples. We went through the whole sequence ourselves less than ten years ago. In fact, reading the papers today is like watching the Late Late Show — I know what will happen in the next reel. We ran the gamut, from jawboning to price freezing, and the only thing that finally moderated the rise in prices was the worst recession since the Great Depression. And because nothing was done about the underlying causes on a continuing basis, after the recession was over, prices started up again.

Now here we are, with another double-digit inflation, doing it all over again under a different Administration and with a different party in the White House. Sometimes we seem to forget that American life is a unique amalgam of political, religious, and economic pragmatism. Each sector contributes to and indeed forms part of the other sectors. An attack on one sector undermines the others. To think that the bell does not toll for academic freedom or freedom of the press if the free economic system is shackled is a dangerous illusion. The lesson of history is that everything is connected to everything else.

**Question: How Does It Affect Individual Liberty?**

The American press would not tolerate for one moment an attempt by the government to suppress news of riots or political demonstrations on the grounds that it wants to “insure domestic tranquility.” The press knows a threat to the First Amendment when it sees one. Yet on the grounds of “insuring price stability,” the government assumes the power to tell us what we can be paid for our labor and what we can charge for our products, and the only question asked by most of the press is: Will it work? That is the wrong question. The right question is: How does it affect individual liberty? Is not one of the most basic human rights the right of a person to sell his or her labor for what the market will bring?

There are ten amendments in the Bill of Rights, although sometimes it seems that the press is so busy defending the first one that it is hard to get equal time for the other nine.

Let me recall one of them — the Ninth Amendment — which few people ever read any more, let alone defend. It says: “The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people.” Is something being disparaged when the government’s chief inflation-fighter tells a group of businessmen, as he did recently in Chicago, that “We will, with a degree of enthusiasm that I suspect many of you may consider unseemly, identify the miscreants publicly”?

A miscreant, according to my dictionary, is someone who is villainous, unscrupulous, and devoid of conscience. And now all you have to do to qualify for that description, in the eyes of your government, is to insist on your right to decide what wage you’re willing to work for, or how much to charge for whatever you’re selling. I do not believe that was the kind of society the Founding Fathers had in mind, or one that many Americans will enjoy living in if it becomes a permanent condition — which it shows every sign of doing.

For Americans, price controls and censorship of the press came into the world together. Both were wartime expedients, justified only by the overriding need for national survival. But those were simpler times. We began to experience events like Korea and Vietnam, which may have felt like war to soldiers but were officially labeled something else. And so the justification for expanding government controls became not
just war, but “war or national emergency,” and sometimes merely “national security.”

The Other Nine Amendments

The press has been vigilant in rebuffing the government’s efforts to impose the equivalent of wartime censorship under the flag of anything short of war. It stands up for the First Amendment. But it often remains silent, or sometimes even greets with approval, the steady infringement of virtually any right that does not involve free speech. Justice Goldberg, in his opinion in Griswold v. Connecticut in 1965, put it this way: “The Ninth Amendment to the Constitution may be regarded by some as a recent discovery and may be forgotten by others, but since 1791 it has been a basic part of the Constitution which we are sworn to uphold.”

It is a well-established principle of science that a change of degree, if carried far enough, eventually becomes a difference of kind. In biology, that is how new species get created — and how old ones die out. One of the great unreported stories of the past 30 years, in my view, is the steady erosion of individual rights that is turning us into a different kind of country. If you put a floor under wages and a ceiling over prices, a free man cannot long stand erect.

In talking about what “the government” is doing, it would be more accurate to speak of what we are doing to ourselves. The government adopts monetary policies and fiscal policies that produce inflation in response to popular demand. Since there is no “Truth in Politics” law, we must rely on the vigilance of the press to reveal the true costs of those policies. When we come to understand what is happening, I do not believe that we will find Americans ready to sell their birthright of individual freedom. But someone has to make it clear that the collision course between government price and wage controls and personal liberty is inevitable — because, in the end, government allocation of economic resources requires force. Someone has to point out — and keep pointing out — that every time the tide recedes a little after one of these floods of “emergency” regulations, there is less sand left on the beach for free people to stand on.

If it finally gets down to a single grain, even though that grain be labeled “free speech and the First Amendment,” you’ll find that it isn’t worth much.

THE POLITICAL FED

A revealing article, “The Politicization of Research at the Fed” appears in Business Week dated July 16, 1979. The thrust of the article is that the results of research at regional Federal Reserve banks sometimes have been suppressed when their implications have been adverse to some public positions taken by the Fed or by certain political figures. Two instances involved research suggesting that the Fed’s published money stock (M1) figures underestimate the stock of purchasing media because the Fed’s procedure does not adequately account for such financial innovations as NOW accounts, repurchase agreements, and money-market mutual funds. Reportedly, staff members at both the New York and Philadelphia Federal Reserve banks were thwarted in their efforts to have studies showing such results printed in their respective bank’s research publication.

Some New York bank staff economists asserted that “bank officials alter the conclusions of the staff’s research to conform to what officials think will please the Washington Fed staff and Paul A. Volcker, President of the New York Fed.” Volcker recently became the Chairman of the Federal Reserve Board. At the New York Fed, Mr. Volcker reportedly pressured the research staff to write “upbeat” articles about New York City’s economy. When a recent report did not support an assertion made by Senator Patrick D. Moynihan (D-N.Y.), a friend of Volcker, “that New York City contributes more in taxes to the Federal Government each year than it ever gets back in jobs and services,” Mr. Volcker cancelled future “briefing sessions,” which apparently were held to inform staff members of the proper “tone and line” to take in their analyses.

At the Philadelphia Fed, Ira Kaminow, a vice-president and economic adviser to the bank’s president, and Anita Summers, head of the research department’s urban section, resigned. Mr. Kaminow cited the fact that he was asked to accept policy decisions that “he could not stomach.” Mr. Kaminow also criticized the Federal Reserve’s Washington staff’s forecasts of the growth of the monetary aggregates. Rather than engage in an open discussion of the differences of opinion, the Washington Fed’s staff’s director for monetary policy denounced Mr. Kaminow’s views as “unprofessional and biased.”

The politicization of research at the Federal Reserve seems to have begun when Arthur F. Burns became Chairman of the Federal Reserve Board in 1970. Dr. Burns, an expert business-cycle analyst, apparently felt his expertise on monetary policy was above analysis or question by the Fed’s research staff. He insisted that regional bank articles be sent to the Washington staff for approval before they were published. G. William Miller, former Fed Chairman and now Secretary of the Treasury, apparently did not alter the practice of pressuring the regional Federal Reserve banks to publish articles acceptable to the Washington Fed hierarchy. With the appointment of Paul A. Volcker to the chairmanship of the Federal Reserve Board, the politicization of research at the Fed may well intensify during the coming months and years.

Inasmuch as a recession already may have begun, it will be informative to watch Mr. Volcker’s actions in light of his Congressional testimony in which he announced that his first priority will be to combat “inflation.” Was he sincere in making that remark? Or, was he being political — saying what the Congress wanted to hear and what the public has to be convinced of if the value of the dollar is not to approach worthlessness more rapidly? If a recession develops and extends into next year, when Mesaros, Volcker’s and Miller’s Trilateralist colleague Jimmy Carter begins campaigning in earnest for the 1980 Presidential election, will Mr. Volcker reject the politically expedient policy of inflating? His interference with Fed research results suggests that he will do the politically useful thing.

MORE ABOUT THE MONETARY BASE

The adjusted monetary base published by the Federal Reserve Bank of St. Louis is the total of currency held outside the banks and of Federal Reserve member bank reserves adjusted for reserve requirement ratio changes. Because member banks have about seven and one-half times the amount of demand deposits as they do reserves, the monetary base sometimes is known as “high-powered money.” However, procedures for implementing Federal Reserve Board policy, such as open market operations and lending to member banks, directly affect only the member bank reserves component of the base; the general public decides how much currency will be in circulation.
This is significant because increases in the amount of currency held outside banks “absorbs” the monetary base dollar for dollar, whereas member bank reserves can support about 7.5 dollars of deposit liabilities to the public. The Fed can attempt to offset the effect on the monetary base of changes in currency in circulation through its control of Federal Reserve credit; however, there is no convincing evidence that the Fed can do so effectively in the short run (see Research Reports for May 14, 1979). In the long run, however, the Fed can do so. For the past few decades the Fed has used this control to increase the monetary base too rapidly, and the result has been chronic inflating.

Changes in the seasonally adjusted monetary base since 1950 are shown in the accompanying chart. Three distinct levels in the rate of growth in the monetary base are evident since the early 1950’s. During each of the successively higher rates of expansion, the rate of price increases (measured by the Consumer Price Index) has accelerated. During the 1954-57 period the monetary base increased in the 0 to 2 percent range and prices rose 2.1 percent on average. After the 1960-61 recession, the monetary authorities accelerated the rate of expansion of the base to the 5 to 7 percent range during 1963-70, and the CPI rose an average of 4.1 percent a year. During the most recent period of still higher rates of increase, 1973 through today, the monetary base has increased at rates of 7 to 10 percent and the CPI has averaged increases of 9.0 percent annually.

When the rate of increase in the monetary base decelerated sharply during the months immediately following the U.S. dollar-strengthening announcement of November 1, 1978, many analysts asserted that it indicated a major policy shift. This deceleration is evident in the accompanying chart. But the chart also reveals that recent lower rates of increase are “low” only in relation to the very high rates during 1978. Moreover, the recent rates were approximated at some other times since 1973, which indicates to us that the short-run slowdown is not sufficient evidence for concluding that there was a major change in U.S. monetary policy.

Rates of change calculated for periods less than a year reveal that the slowdown indeed was temporary. According to the Federal Reserve Bank of St. Louis, the compound annual rate of increase in the 4-week average of the adjusted monetary base was 9.8 percent from the beginning of 1978 through October, it slowed to 5.3 percent from the beginning of November 1978 to early April, but it subsequently accelerated to 9.2 percent through early August.

We have added to the chart the average annual rates of increase in real GNP for the three distinct periods of increases in the monetary base. The data reveal that the upward trend of increases in the base has been accompanied by an upward trend of increases in the price level, but not in real output.

**PRICE OF GOLD**

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