Inflation ... worse to come

New Bureau of Labor statistics figures show what most people already know: Mr. Carter and Mr. Volcker's policies are fast turning mere inflation into hyperinflation.

The inherent inflationary thrust of the credit tightening policy of Federal Reserve Chairman Paul Volcker came roaring out into public this week as the Bureau of Labor Statistics announced Feb. 15 that wholesale prices had leapt 1.6 percent in January, an annualized rate of increase of 19 percent. Wholesale price increases presage what happens to consumer prices weeks or months later.

The immediate reaction to the news of the WPI (or producer price) increase was a fall in the primary U.S. credit markets. The Dow Jones, which had nicked 900 on Wednesday, also took a plunge. But the biggest loser was the faction in the U.S. that, for political reasons, had sought to assure the financial markets that the firm hand of Volcker had everything under control. Typical is the Feb. 10 lead of the Sunday *New York Times'* "Business and Finance" section, entitled "Volcker's Elusive Success," which stated that Volcker's policy had succeeded in walking a middle lane, not tightening too much, but also keeping money supply and inflation under moderate control.

The theme sounded by the *Times* was picked up by the financial press accounts of the City of London. Its ostensible purpose was to be calming: the Consumer Price Index had hit 13.3 percent for 1979, and the U.S. bond market has been losing 2 points per week for the last several weeks, but the *Times* and the others tried to reassure. There needn't be any big economic recession in the U.S., and provided that everybody kept their composure, the U.S. dollar could continue to strengthen on the foreign exchange markets.

No sooner was this said than short-term treasury bills rose above their record peaks of last October at almost 13.20 percent, six month bills were down an average 6½ points in face value price. The steady build-up of the Dow Jones to just touch 900 on Wednesday evaporated, as on Feb. 15, the Dow dropped to 885.

Volcker's response was typical. Immediately, with the release of the WPI news, Volcker jacked the discount rate from 12 to 13 percent, and federal funds ended up trading at a 14.75 percent average on the day. Talk of the prime rate going up to 16 percent and above was widespread. But Volcker's desperate dash to apply the brakes will only accelerate the very process he has vowed to be fighting since he pulled a credit crunch on Oct. 6 of last year: the uncontrolled rate of inflation.

The jump in the WPI proves that the yearly rate may be far more than the 19.2 percent projected from the simple multiplication of the January rise by 12 (months).

Most interesting is the fact that for non-food items, the increase was even higher, at 2.4 percent, an annual rate of close to 30 percent. Some of this latter increase can be attributed to the price of oil or of silver and gold (especially jewelry prices). The Department of Labor discloses, however, that consumer durables on the wholesale level rose by 3.2 percent in January. Prices of such intermediate goods as sheet metal, flour and fabric rose 2.8 percent. Food prices, which had risen for most of the latter half of 1979, fell by 5/6 of a percent in January, but are expected to rise again in February.

For all of the intermediate consumer durables and items such as housing, etc., cost increases are directly traceable to the Volcker credit tightening.

Now, consider that the Carter administration is unleashing a 1981 fiscal year budget that has a $91 billion deficit, counting both on- and off-budget items, not the $20 to $30 billion that Carter is claiming (see *EIR*, Vol 7, No. 5). Then, add in an avowed Carter administration energy constriction program, which already sent oil prices at the gas pump up 10 percent in January, and a sharp cut in the budget's high technology programs which are desperately needed to offset 1979's two percent drop in productivity. This means that all the forces are now operating to make 1980 a year of greater inflation than 1979.