

# Monetarists Exact Too High a Price for Theory That Doesn't Work

By AMITAI ETZIONI

The gross human misery and economic loss perpetrated by the current recession are being inflicted in vain. They are most unlikely to "Wring inflation out of the American economy," the reason given by those who are inducing the second recession in a year and a half. Indeed, these people are hellbent either to extend the current economic trouble, or to abort a recovery if it does take place. They seem determined to administer more recession because the shorter bouts of bloodletting have not produced the promised effect.

No straight-thinking, well-meaning person would deliberately cause a recession—unless, that is, he were driven by a theory. Monetarism is what drove the Federal Reserve, until very recently with the full support of the Reagan Administration, to constrict the supply of money and jack up interest rates until the economy caved in.

## One Serious Flaw

But, you may well ask, hasn't recession already reduced inflation? Isn't it down from last year? Nobody questions that recession can temporarily cut into inflation. Indeed, if you idled more of America, say pushed unemployment to 25%, prices would fall left and right. But even monetarists agree that this is too high a price for short-lived relief from inflation. Their rationale is that recessionary bloodletting will have a lasting effect.

This theory has one serious failing. It does not work. Rather puny price declines are bought with very large economic losses, not just unemployment but also much lower profits for business, and, above all, lower total output. According to one often cited estimate, to bring down inflation by one percentage point, \$200 billion worth of production must be sacrificed.

Most important, the inflationary relief does not last long once the economy is allowed to climb out of its recessionary sickbed. The last three recessions were followed, soon, by higher inflation. The 1980 recession was succeeded within a year by double-digit inflation, to be curbed only by the new 1981 recession. After the 1975 recession, prices rose only 4.8% in 1976, but they rose more in each of the subsequent years: 6.5% in 1977, 7.7% in 1978 and 11.3% in 1979. And while the 1971 recession secured a lower inflation rate in 1972, the rate took off thereafter, albeit with the help of the oil-exporting countries.

Monetarists do not deny these facts but offer various after-the-fact alibis. Indeed, there is no better evidence of the utterly unscientific nature of monetarist theory than that it does not meet the essential criterion of specificity:

A distinctive feature of scientific theories is that their statements about the way the world ticks—and how it might be modified—can be demonstrated to be

true or false. That is, we can define a set of observations (or data) that will tell us whether the world is really the way the theory has it. When a theory is vague or highly generalized, it becomes untestable, often more an expression of luck and hope than a conveyor of empirical evidence and scientific logic.

Monetarism's immunity to evidence is perpetuated by not specifying the key factors that tell us how it may work. It does not spell out the nature of the intervention, the period for which it must be applied and the results to be expected. Instead, like rain dancers, monetarists contend after the fact that the last dance was not done right for this or that reason, that the next will bring salvation.

## Keeping Secrets

To start with, monetarists who say it will take a longer or deeper recession "to wring out inflation" (Whatever that specifically means) insist on keeping a dark secret the depth or length of misery that will secure a given measure of respite from inflation. And the recommended intervention changes more rapidly than farm prices.

First, the monetary authorities, the Fed, tried raising interest rates. Those rates were soon deemed not high enough, and still higher ones were tried. In 1979 the size of the money supply, rather than interest rates *per se*, became the rage, but the monetarists

have yet to agree what definition of the money supply is to be used. As it tends to be higher by some definitions, lower by others, the definition provides a whole new set of escape clauses. And the very latest twist: Money supply need be neither tight nor lax, but "regular" and its future course "predictable, "steady" and "credible."

Obviously, all this is little more than guesswork, of trying now this, now that, of trial and error, more trial, lots of error. It would be rather amusing if it were not so costly to all of us.

One may even suggest that monetarism, far from being a solution, is part of the problem. High interest rates discourage the very investment that is to provide for higher production. As the supply siders remind us, if inflation is caused by too much money chasing too few goods, more goods revives it just as much as less money—only at a much higher level of production and, one hopes, of service to human needs. And high interest rates swell government expenditures (especially national debt and unemployment) and reduce government revenues—enlarging the inflationary deficits. In the longer run, therefore, monetarism does more than fail as a cure, it helps cause inflation.

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