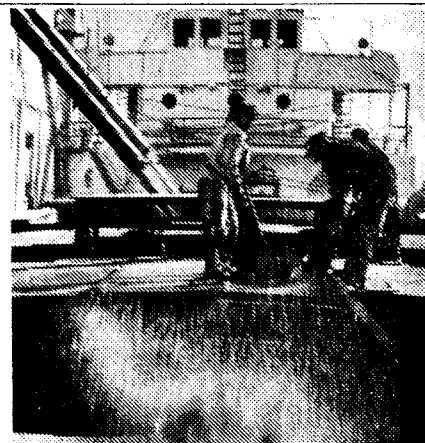


DOMESTIC MARKETS NEWSLETTER

The Monetarists' Destruction Of The U.S. Economy



The United States is being impelled toward thermonuclear destruction for essentially one reason: the Wall Street financiers, the men who run Jimmy Carter, have leeches U.S. and world productive capacity so thoroughly that now nothing less than World War III can satisfy their appetite for plunder.

The U.S. economy, the world's greatest single concentration of skilled labor power and productive plant, is trembling on the verge of complete and total breakdown. The nosedive of production, earnings, social services, and every other measure of real economic processes over the last few years is accelerating as the crash approaches.

Since June U.S. steel production, the backbone of the economy, has fallen 20 per cent. Industrial orders have sharply declined the last three months, presaging another further sharp ratchet in production. New claims for unemployment insurance and manufacturing layoff rates have reached new highs for the year. General unemployment is conservatively estimated at more than 25 per cent, with rates for sectors like construction running at 50 per cent. We are fast approaching the end of the line.

Rockefeller and the rest of the Wall Street bankers have responded forcefully and unequivocally. They have frenetically stepped up the exact same policies of bailouts and cutbacks that wrought this destruction in the first place, burning whatever remains of real production to keep more and more hot air flowing into their Eurodollar and other paper bubbles. With the point of complete bankruptcy passed long ago, these maniacs are hoping only to throttle their pro-development opposition into silence and buy time until total war against the socialist bloc can (they insanely believe) provide a whole new source of loot.

And, of course, they lie. But the blather about "ongoing economic recovery" and "7.8 per cent unemployment" that appears in your local newspaper is not merely lying. The monetarist "economics" which yields up such incredible conclusions is concerned only with maintaining cancerously expanding financial claims at the expense of production, and has no more understanding of the realities of the economy than do the psychotic financiers that bankroll it.

Discovering that there wasn't any "recovery" never required more than sticking your head out the window; the facts of economic collapse are everywhere horrifyingly obvious. The "economics" of Carter, Burns, Simon, and the like functions primarily as a straightforward brainwash code, to drag businessmen, workers and politicians into a topsy-turvy debate on monetarist terms, where evident reality is ignored and the obligation to repay the debt is elevated to a principle higher even than the survival of the human race.

The recent pitiful debate performance of President Ford, who should be representing the rational interests of industrial

capital but instead ended up sounding like a reincarnation of Herbert Hoover, is exemplary of the point. So is the pathetic spectacle of leading corporate executives at the prestigious Business Council meeting last week babbling on about "the recovery" — when by simply comparing current costs of replacement for plant and equipment with receipts, these gentlemen would have discovered that their third quarter 'profit rates' are deep in the negative numbers!"

Sane Economics vs. the "Recovery" Hoax

A sane analysis of the U.S. economy must begin by examining whether the economy is generating sufficient absolute profit to qualitatively expand the nation's productive population and plant. From this standpoint it is immediately obvious that the economy has been severely maimed by monstrous speedup of the looting of both the population and industrial capacity, counterpointed by lower Manhattan's thuggish political efforts to shore up their Eurodollar bubble.

The "recovery" hoax was based on two operations. First, massive government credit creation — pure and simple paper-printing — has been used especially since early 1975 to keep up circulation of the mass of worthless paper (fictitious capital) whose ballooning debt service and similar requirements had choked off a critical portion of real production in late 1974. This grossly inflationary credit expansion was "paid for" by increased looting and anticipated looting of wages, living standards, production, and working-class savings, the actual content of the 1975 "tax cut" debates and the huge \$100 billion federal government deficits of the past two years.

Second, a gigantic bailout of the New York banks was arranged by Treasury Secretary William Simon and Federal Reserve chairman Arthur Burns, which relieved the banks of billions of dollars' worth of uncollectable corporate loans. While the corporations were encouraged to pay back the bank loans by floating record amounts of bonds, which were in turn financed by the workers' savings in pension funds, insurance, etc., the banks were freed to buy up record amounts of guaranteed government paper, and shift the flood of funds from Burns' printing presses into the Cayman Islands-Eurodollar crap game.

In response to the credit boom a very mild expansion of production momentarily occurred but never went further than the warehouse. By the first quarter of 1976 inventory accumulation was way up, but production and industrial employment flattened out toward the current downward ratchet of depression collapse.

It was lawful that the "recovery" fraud could not last more than a few months, as was signaled by the Summer-Autumn New York City crisis and the rapidly mounting Third World bankruptcies. Inevitably, the rate of wealth pillaged

domestically and, even more important, internationally to keep the Eurodollar funny-money game going could no longer be enough to cover the expanded scale of debt and interest expansion. At this point war must become the monetarists' "economic" policy alternative of last resort.

Looting of Industry

In late 1974 U.S. productive capacity was already in a tremendous state of disrepair. According to the most conservative estimates of a McGraw-Hill survey made at that time, it would have cost an astounding \$197 billion dollars simply to replace what the major industrial corporations surveyed considered their "technologically outmoded facilities" with "the best new plant and equipment." Twenty-five per cent of U.S. iron and steel industry capacity was 20 years old and more; 20 per cent was considered obsolete. The major automobile and truck manufacturers estimated that 17 per cent of their capacity was outmoded, machinery manufacturers, 18 per cent, with 20 per cent of their capacity over 20 years old. An incredible 37 per cent of railroad capacity was over 20 years old, with 19 per cent rated obsolete. Another McGraw-Hill survey conducted the year before showed that 28 per cent of all the machine tools used by U.S. industry were over 20 years old, 67 per cent over 10 years.

But faced with the immense demands for cash generated by the enormous expansion of debt over the previous ten years, producing corporate debt-equity and liquidity ratios many times worse than those of 1929, the New York investment and commercial banks decided late in 1974 to keep up payments on paper by biting ever deeper into productive capacity.

Spending for plant and equipment was accordingly cut even further, to the absolute bare bones needed to prevent existing capacity from literally collapsing into scrap metal. In constant dollars, capital spending fell 12 per cent in 1975 and declined another one per cent in the first half of 1976 to a level only slightly higher than 1967. In the last three months capital spending plans have been slashed across the board, while plant and equipment are simply scrapped.

The effects of this absolute cutback have been disastrous. Despite expenditures between 1971 and 1974 which strained corporate balance sheets to the breaking point, U.S. industry was rapidly losing ground in its effort to maintain capacity. During that period, capital spending by industry increased 15 per cent in constant dollars, yet the percentage of manufacturing capacity that was over 20 years old rose from 17 to 21. Even with this significant increase in constant dollar expenditures, the estimated cost of replacing outmoded capacity rose 47 per cent!

Although no current survey of outmoded capacity exists, it could be very conservatively estimated that the absolute decline (in constant dollars) in capital expenditures over the past two years has raised the cost of simply replacing the most outmoded U.S. industrial capacity today to a minimum of \$350-\$400 billion. (This figure accounts for the official higher rate of inflation of "nonresidential fixed private domestic investment" in 1975-6 than 1973-4.)

Short of global debt moratoria and the creation of an International Development Bank, there is obviously no way this "capital shortfall" could be covered. Moreover, without moratorium on unproductive, fictitious debt, government-generated credit expansion on the necessary scale would quickly generate hyperinflation. But if accompanied by debt moratoria, a mass of low-interest government credit could be issued to produce the necessary capital equipment, with the massive growth of trade under International Development Bank treaty arrangements ensuring that this capacity will be fully utilized and generate sufficient profit to pay off the extended credit.

The IDB would also reverse the looting of U.S. agriculture and enable the doubling of agricultural production within three years. U.S. agriculture, particularly in the past two years, has been strapped with rising debt and declining prices. From 1970 to 1975 interest and rent paid by U.S. farmers increased over 120 per cent. Then, on top of this, credit market liabilities of farmers increased 12 per cent from last summer, while the farm parity ratio, the ratio of prices received to prices paid, declined 10 per cent over the period. In the past three months, farm prices have fallen through the floor, falling an incredible five per cent in the last month alone.

Destruction of the Labor Force

Even more horrifying than the destruction of U.S. productive industrial capacity has been the accelerated looting of the labor force in the past two years. The living standards of what Wall Street regards as "marginal" layers of the population, most especially the minority populations in the ghettos, the elderly and youth, have been plunged well below the threshold point at which they can immediately become the "weak-link" entry-point for U.S.-wide epidemics of flu, plague, and other diseases.

Official government statistics show a 5 per cent drop in "real spendable earnings" since 1972 to an absolute level equal to 1965, but by not accounting for the necessity of a constantly rising level of wages, they greatly conceal the true magnitude of the collapse of living standards.

Indicative of the actual collapse of the living standards of the U.S. population is the fact that, according to Bureau of Labor Statistics reports, the "real spendable average earnings" of a worker with three dependents in July, 1976 came to **\$115.00 per week**, in 1972 dollars, less than \$6,000 per year.

This is 35 per cent of the \$16,558 in 1972 dollars computed by the Labor Department to be an "annual budget at a higher level of living for a four-person family," a budget which provides the equivalent of the modal consumption level of skilled U.S. workers in 1960, i.e., the budget minimally necessary to reproduce skilled labor power capable of assimilating advanced technology.

Cuts in family income have hit hardest over the past two years in the form of rapidly rising unemployment. From a level of 15 to 20 per cent in 1973, unemployment has now reached at least 25 per cent of the actual labor force, not the official 7.8 per cent concocted by Labor Department officials who have simply written millions of unemployed workers out of the labor force. The rapid rise in unemployment among women workers, in particular, has had a devastating effect on family income, since the long decline in spendable earnings had forced large numbers of wives into the labor force just to try to make ends meet. Unemployment is heavily concentrated in the most productive layers of society, with a current **official** rate of 10 per cent for "blue collar operatives," and 18 per cent for construction workers. Even the official statistics admit to a jobless rate of over 40 per cent for minority group teenagers and 16 per cent for white teenagers, meaning that an entire generation has been tossed on the scrapheap without ever having had any role as a productive part of society. The lack of meaningful employment opportunities combined with the resulting malaise of our youth has led to tremendous deterioration of education in the U.S., reflected in declining rates of even high school graduation and the burgeoning of nonsense courses in college at the expense of technology-oriented education in the physical sciences.

The rapid decline in living standards has been most noticeable in regard to housing and social services, especially in urban areas. New housing starts declined 50 per cent between 1972 and 1975 (to one half the level of 1950), and rose only slightly this year. During the last three years 1.3 million units of new housing have been started per year, compared to the total of 21 million

units of slum housing as long ago as 1970 that urgently needed to be replaced. The collapse of employment and essential social services in the inner cities, combined with the effects of years of rampant real estate speculation, has created hothouse conditions for the growth of urban slums in the past two years — in New York City alone, 50,000 units of housing a year are abandoned. Apartment construction, essential for replacing the most blighted inner-city areas, has ceased all together during the past two years, while 250,000 high-priced condominiums built in Florida during the height of the New York banks' Real Estate Investment Trust fever sit unoccupied. The officially calculated price of the single-family homes being built today is over \$50,000; that plus double-digit mortgage rates make a new home out of reach for all but the highest income levels of the population.

The rising costs of the increasing numbers of people forced out of productive employment (welfare, prisons, hospitals, etc.) combined with taxation levels reaching confiscatory levels on actual (as opposed to fictitious) corporate profits and wages, have produced massive governmental budget crises, exemplified by the New York City case. New York's expenditures have been gouged at least 15 to 20 per cent over the past year, with every \$15,000 in cuts directly causing an otherwise avoidable death. Nationally, state and local government expenditures have been declining in constant dollars during 1976, while the fiscal year 1977 federal budget contains a 10 per cent cut in expenditures, excluding defense and debt service.

These cuts have hit the marginal layers of the population hardest, especially in the areas of medical services. Skyrocketing medical costs — a **30 per cent increase** since October, 1974 alone, and **100 per cent** since 1967, according to the official Consumer Price Index — have made most sectors of the population totally dependent on government services. Together with the crunch in medical services, the recent trend in wage bargaining of sharply curtailing so-called fringe benefits, such as health insurance, and the sharply escalating cost of food, which in ghetto areas has drastically reduced the protein consumption of the population, has brought the U.S. population to the brink of "Third World"-style ecological holocaust. The fact that ground beef has shot up from 17 per cent of U.S. beef consumption in 1972 to 23 per cent in 1974 to more than 40 per cent today bears out what every wage-earning family knows — even those who are still eating meat must make do with the lowest quality cuts.

This process has been exacerbated by the debilitating effects of the past two years of in-plant speedup, which has further greatly reduced the resistance levels of the population while adding immense strain to the psychological stability of the working-class families. The "secular" 2 to 3 per cent per year increase in "productivity" measured by the Labor Department as "output per manhour" from 1965 to 1974 is entirely attributable to speedup, since there has been **no** technological breakthrough in industry (computerization occurring primarily in financial and related areas of data-processing), while the measurable age of capacity has continued to decline. In addition, extensive reports from workers throughout the country indicate a 15 per cent increase in speedup at minimum in the past two years, with much higher increases in many places.

This level of speed-up has directly caused the death of hundreds of thousands of workers per year, with millions more maimed or suffering from impaired health.

Why It Happened

Why did the U.S. go downhill so rapidly? Why have our cities been destroyed, our industries run down, our population decimated? Why is corruption, pornography, drug-pushing, and crime the biggest "industry" in the U.S. today? Why is the U.S., which was once looked upon throughout the world as the freest, biggest and most productive nation in the world, now equated with death, disease, destruction, and the Rockefellers' fascist "dogs of war"?

Why? Because of Rockefellers' damned debt! — the debt that Carter will blow up the world for if he and his string-pullers aren't stopped.

It is the ABC's of political economy that the amount of debt-service represented by the monetary system as a whole must be kept to fraction of the absolute profit generated by the expansion of the entire economy as a whole. The rate of absolute profit cannot possibly exceed the rate of combined agricultural, extractive, and industrial expansion.

Yet under the hegemony of the Rockefeller-led monetarists, it would be the wildest illusion to believe that all money collected in institutions of the monetary system necessarily "goes back to work" in production and circulation of useful commodities.

In fact, money circulates quite freely for extended periods without ever touching real commodity production, growing parasitically as it takes the form of an increased debt-service demand against the production and circulation of real wealth. In other words, it is a dangerous fallacy to assume that debt is necessarily incurred only by the production and circulation of newly created real wealth.

To illustrate the crucial point in the most general way: the U.S. industrial production index has increased 180 per cent between 1945 and 1975. On the other hand, credit market debt claims against the nonfinancial sector as measured by the Federal Reserve have increased 650 per cent over the same period. Even this greatly understates the case, most importantly by excluding the mammoth Eurodollar market bubble as "external" to the U.S. financial system.

Nonetheless, the issue is clear: how will the debt be paid, since there is such a wide discrepancy between the rate of growth of the debt and the rate of growth of industrial production? Two facts immediately follow. First, the above parameters define the conditions for tremendous inflation. Second and more important, to "cover" the debt expansion even more real wealth, i.e. natural resources, productive capacity, and labor power, must be gobbled up.

Clearly there are outer limits to this process, mainly determined by the political world balance of forces between the Atlanticists' Dollar Empire and the Soviet sector. The monetarists' insane attempts to alter that political map is what is driving the world to imminent thermonuclear holocaust.

But if a political decision is made by people with guts that real wealth will cease to be looted to cover the debt, then the debt is actually worthless.

That is the sane decision, which U.S. voters have the moral obligation to impose on Nov. 2.