U.S. debt bomb is about to explode

by Richard Freeman

Any American banker who foolishly repeats the line of the Ditchley group bankers, that further credit to heavily indebted Third World nations must be cut off, is bringing on his own downfall. The rottenest debt structure in the world belongs not to a Third World country, but to the United States. A U.S. credit cut-off to the Third World now will set off a chain-reaction of financial catastrophes causing either a collapse of the U.S. dollar, or of the U.S. banking system. The U.S. economy is so massively indebted that it could not survive either crisis.

Particularly since *Time* magazine finally followed *EIR*'s six-month lead and printed the story of the potential Third World debt bomb Jan. 10, the huge developing sector debt to the IMF and U.S. and European private banks has become a widely known fact. But the Brazilian foreigh debt of $83 billion, the Mexican debt of $80 billion, or the East bloc debt of $80 to $100 billion are minor when compared to the internal U.S. debt of $5.3 trillion.

Although the size of this U.S. debt bomb is known in the banking community, to date only *EIR* has published it, and reported what would happen if Citibank, Chase Manhattan et al. imposed Ditchley's credit cutoff across the board.

To appreciate the size of the U.S. debt, compare current levels to those of 12 years ago. In 1970, as **Figure 1** shows, government (federal, state, and local) debt was $502 billion; household debt $502 billion; and business debt $690 billion. At the end of 1982, the same totals had jumped to $1,535 billion, $1,649 billion, and $2,113 billion. Combined U.S. debt was $1,694 billion in 1972; it had more than tripled, to $5,297 billion by the end of 1982.

This debt increase was not the natural outcome of economic growth. Far from it. U.S. debt first jumped after the two oil shocks, in 1973-74 and 1978-79, both triggered from the city of London and with the aid of the New York Council on Foreign Relations. The oil shocks created a higher energy bill that had to be passed through the economy, as consumers and industry went into debt to maintain energy use. The oil shocks which twice weakened the economy were part of the Council on Foreign Relations' "1980's project," to force "controlled disintegration" of the world economy.

Then, starting in October 1979, CFR operative Paul Volcker at the Federal Reserve sent interest rates skyrocketing. The mass of debt was multiplied a second time by the 15 to 20 percent interest rate multiple each year.

There are a few ways to measure the size of the debt. At $5.3 trillion, the U.S. internal debt is three times larger than the entire $1.7 trillion Eurodollar market, out of which all the Third World debt of the entire world is financed. In 1972, per capita debt for every man, woman, and child in the United States was $8,312; at the end of 1982, that amount was $23,232.

FIGURE 1

U.S. Public and Private Debt Increased 11 Times Faster than Production from 1970-82

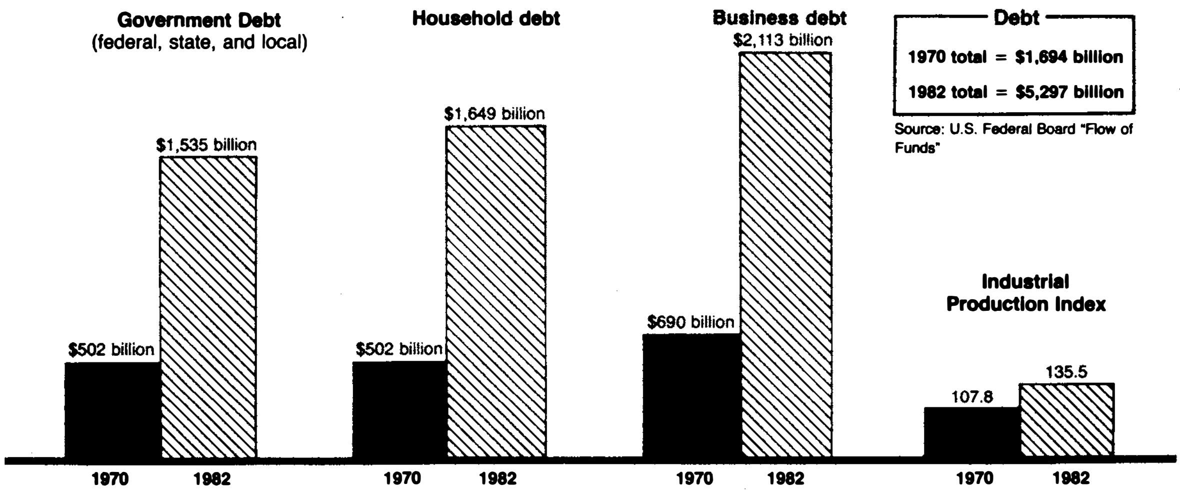

FIGURE 2

Government Budget Revenue
(in billions of $)

Fiscal Year	Total Rev.	Indiv. Inc. Tax	Corp. Inc. Tax	Soc. Ins. Tax	Other
1981	599	286	61	183	69
1982	618	298	49	201	70
1983e	633	298	47	218	70
1984e	692	315	64	240	73

Government Budget Expenditures
(in billions of $)

Fiscal Year	Total	Defense	Health & Inc. Sec.	Interest	Other
1981	657	160	292	83	122
1982	728	187	323	101	117
1983e	788	216	349	115	108
1984e	844	245	372	132	95

e = estimated by Congressional Budget Office

But the most meaningful measure of U.S. debt is that between 1970 and 1982, total debt rose 11 times faster than the industrial production index as measured by the Federal Reserve Board. That out of control debt increase, along with the cancerous expansion of the unregulated Eurodollar market, was the real generator of inflation.

That debt is now a huge parasite on the real economy. Industrial production is contracting, while debt, fed by the Volcker-led high interest rates of the Federal Reserve, proliferates. The image of an animal eating its own offspring is appropriate. One way or another, this process is bound to come to an abrupt halt.

The Treasury financing

On top of this the U.S. government must finance the fiscal year 1983 budget deficit. The U.S. budget is subjected to the same problems as the general economy: high interest rates and collapsing production, meaning collapsing revenues.

Figure 2 shows the loss of U.S. tax revenues. Corporate income taxes plunged from a level of $61 billion in fiscal year 1981 to $49 billion in fiscal year 1982. The Congressional Budget Office estimated that in 1983 there would be a 3.6 percent real Gross National Product increase, and a 3.5 percent increase the following year. Yet, despite that, corporate income taxes were forecast to rise to barely 1981 levels by the end of 1984. Individual income tax revenues, although benefiting from the tax cut, will tend to stagnate, because of the collapse of the production economy and increased unemployment.

On the expenditure side of the ledger, the collapse has led to increased expenditures for unemployment benefits, welfare benefits (for those no longer able to collect unemployment insurance), food stamps, and so forth. It has also led to decidedly higher interest payments on the public debt.

The problem confronting President Reagan as he prepares his January State of the Union and budget messages is that the U.S. budget deficit for fiscal year 1983 will be at least $155 billion, according to the figures prepared in the above chart by the Congressional Budget Office. But the CBO plans to soon release new figures showing that the real GNP will be considerably below the robust 3.6 percent growth it predicted for 1983 and therefore revenues will fall. CBO is now predicting a $190 billion budget deficit for fiscal 1983. Reagan has slashed about as much as he can from the non-defense, non-Social Security sections of the budget (see "Other" in Figure 2).

Short of major tax increases—which if effected would kill any pathetic "recovery" that could occur in housing or auto by eating up people's earnings—President Reagan will confront a $190 billion "on-budget" deficit. And the off-budget deficit, for operations such as the Farm Credit Administration, will run another $17 billion. There is also $90 billion in government or semi-government agencies, whose paper the government guarantees. Thus, total U.S. government borrowing needs for 1983 will be $297 billion.

Normally $400 billion of new credit is created each year above the previous year's levels, from savings, foreign investment in the United States, and other sources. On the present trade the U.S. government is about to absorb three-quarters of all U.S. new credit supplies. To have credit available to roll over interest payments on outstanding corporate and household debt, by conservative estimates, the United States would need new credit supplies of $580 billion, or 40 percent above all previous historic levels, to meet the minimal credit requirements of the U.S. economy this year. This would definitely not provide any credit for a U.S. economic recovery, but only a modest increase in housing and auto sales. There are not enough funds around to meet these credit needs, and thus the Federal Reserve Board would have to decide to monetize between $50 and $80 billion worth of debt. That is a decision that the Fed already seems to have made.

But to finance the U.S. budget deficit and supply debt refinancing needs of the U.S. economy, plus provide the $50 billion or $100 billion to bail out foreign debtors demanded by the Ditchley Group, the Fed would have to print money faster than was done during the 1921-23 German Weimar Republic hyperinflation, when inflation rose over 10,000 percent. Even the attempt to finance the U.S. budget deficit could trigger the U.S. debt bomb, or force a further sharp drop in U.S. industrial production as the Treasury crowds everyone else out of the market.

There is only one way out of this crisis: the debt reorganization proposals of Lyndon LaRouche to finance a New World Economic Order. In that context, the U.S. debt problem can be solved easily. Without it, the U.S. debt bomb is going to go off.