How the *fondi* created the U.S. budget disaster

by Criton Zoakos

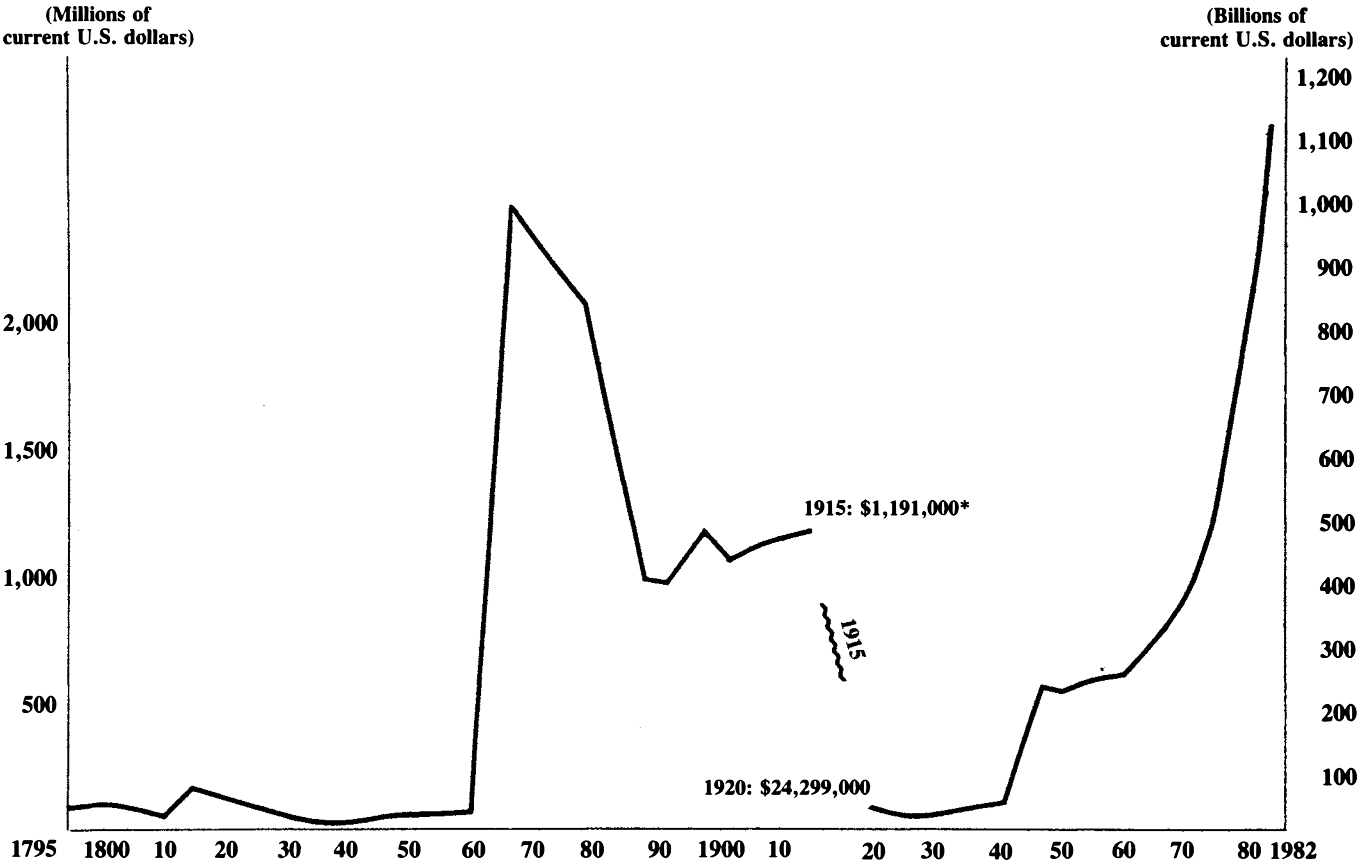
The total debt of the U.S. government is now approximately $1.3 trillion. It is projected to become as high as $1.6 trillion by the end of 1984. This is the size of America's GNP measured in 1972 constant dollars, or about 50 percent of GNP measured in current dollars. Never before in its entire history has the United States experienced such staggering levels of indebtedness. The management and manipulation of this debt is nominally in the hands of four major investment houses which dominate the market in U.S. Treasury securities: Morgan Guaranty Trust, Goldman Sachs, Salomon Brothers, and Citibank, controlling approximately 75 percent of the market, followed by Merrill Lynch, Bankers Trust, and the rest of the New York banks.

These institutions are merely a front for the owners of U.S. government debt, the creditors of the nation. These owners are not, as *New York Times* mythology has it, average citizens and impersonal corporations, but a tightly knit mafia of powerful oligarchic families controlling both the ostensible "institutional investors" and the investment banks and brokerage houses which call the shots in the government debt markets.

These families, among them the Harrimans, Mellons, Astors, Auchinclosses, Cabots, Lodges, Biddle-Dukes, Phipps, Vanderbilts, Whitneys, Morgans, Peabodys et al., are defined as families, not so much by biological blood-line continuity as by the income-receipt and political clout of the accumulated fortunes, the *fondi,* around which the biological families are organized. The *fondi* of these families have, increasingly since the 1880s, intermarried and integrated with the ancient family fortunes, "old money," of Europe, especially the *fondi* organized around the British monarchy. It is these interests which now control the $1.3 trillion national debt of the United States. As our creditors, they are dictating our national economic policy, and as formulators of our national economic policy, they have imposed this unprecedented level of indebtedness.

What is most notable is the staggering rate at which the national debt has grown since August 1971. In 1971, before the dollar was taken off the gold standard, it stood at $397 billion. Within a decade it grew by over 300 percent. By

Figure 1
Total interest-bearing U.S. government debt outstanding at end of fiscal year



Source: U.S. Treasury Department.
*Government debt shifts into billions of dollars after 1915.

comparision, during the Civil War, national debt grew by approximately $2 billion; during World War I, it grew by about $22 billion; during World War II by about $150 billion. The increase from 1971 to 1983 is about $1,000 billion, greater by a whole order of magnitude than all the previous debts of the United States (see **Figure 1**).

In essence, the United States has been in the equivalent of a war with the family *fondi*, its creditors. The war is one-sided, given that the *fondi* are conducting a systematic battle designed to capture and destroy the last remnants of the state's policy-making institutions, while the state is still not fighting back. The state has carried out policies which led to the present indebtedness, and these policies were dictated by the family *fondi*'s creditors. Under the general rubric of "post-industrial society," these policies caused the collapse of industrial productivities, and the massive shrinkage of the taxable base of the nation, thus a relative decline in government revenues. This forced the government to borrow to cover the massive deficits. Each time dependence on the creditors grows, the United States' bondage to these creditors grows.

As a result, for 1983 the federal government will pay approximately $89 billion in interest payments on the federal debt. This is the third largest budget expenditure item after Social Security and defense. It is also almost half the size of the budget deficit itself. The United States is fast approaching the point of having to borrow for the exclusive purposes of providing interest payment to the holders of the national debt. But more significant is how the annual deficits of each of the recent years stacked up, forcing the government to this large scale borrowing.

Forget the myth that Social Security outlays cause the deficit. Although the small expected 1983 shortfall is counted as part of the deficit, the fund receives no Federal revenue.

Furthermore, U.S. defense spending itself is not as big as it appears if one takes into account plowback into industry which generates taxable income, etc. There are two major sources of budget deficit during the era of "post-industrial society" policies: First, lost government revenues as a result of the shrinkage of the economy's taxable base; second, actual added expenses such as unemployment benefits, increased payments of interest on the public debt, and so forth.

For example, we have calculated the "Volcker factor" in the federal deficit thusly: Since October 1979, Fed Chairman Paul A. Volcker applied a deliberate de-industrialization policy, forcing the economy to live in a regime of 18 to 22 percent interest rates. This caused the following losses to the federal budget: 1) losses in corporate and individual tax revenues as a result of the decline in economic activity; 2) increased payments of interest on public debt; and 3) increased payment of unemployment benefits. In rough estimation, the picture was as follows:

- During 1980, the federal deficit was $59.6 billion, lost corporate and individual tax revenues were $21.2 billion, unemployment benefits were $16 billion, and payment of interest on public debt was $52.5 billion.
- During 1981, the federal deficit was $57.9 billion, lost corporate and individual tax revenues were $33.7 billion, unemployment benefits were $15.4 billion, and payment of interest on public debt was $68.7 billion.
- During 1982, the federal deficit was $110.6 billion, lost corporate and individual tax revenues were $109.8 billion, unemployment benefits were $21.2 billion, and payment of interest on public debt $84.7 billion.
- For 1983, projected unemployment benefits are about $32 billion, projected losses of corporate and individual taxes, about $94 billion, and interest on public debt will depend on the interest rates which will prevail over the year. A federal deficit of over $220 billion is almost a certainty.

Volcker's crushing interest rates are merely one of the many instrumentalities by which the family *fondi* have imposed "post-industrial" policies, and what we have roughly calculated above is only a small measure of the total damage done to the taxable base of the national economy by this post-industrial nonsense. One gets a better sense of the damage done to the government's ability to raise funds by reviewing the evolution of our economy's composition since the mid-1960s. Thus in 1965, production of tangible goods in manufacturing and agriculture made up over 32 percent of the Gross National Product; in 1982, tangible production represents about 22 percent of GNP. Also, during 1965, worker productivity was growing at over 4 percent per year, while in 1982 it grew at less than 0.5 percent. During 1965, the goods manufacturing sector of the economy was receiving 33 percent of GNP (in the form of wages and industrial profits), and personal interest and dividend income was no more than 8 percent of GNP. Today, the goods manufacturing sector is awarded 22 percent of GNP and personal interest and dividend income receives 14 percent of GNP.

In short, the problem of the federal budget is not that we spend too much, but rather that we do not produce sufficiently for the government to raise more tax revenues at lower tax rates. We have lost this ability because the "creditors" of the nation, the oligarchic family *fondi*, have imposed, since the mid-1960s, an insane policy of de-industrialization. The intent was to turn the United States into a "service economy," of the type appropriate to a rentier, coupon-clipping, "gentrified" society. As a result, they have killed the goose that laid the golden egg.

The *fondi* control directly 35 percent of the national debt, including major portions of foreign, household, and private non-bank financing, (see **Figure 2**) and by means of leverage, all 100 percent of it. To ensure continued payment to the debt without abandoning their policy of de-industrialization, they now propose to gut the already inadequate national defense. If they succeed, neither the United States nor their social power within it will survive. The alternative is to scrap the whole package of "post-industrial society" policies and reorder the nation as a growing industrial power along lines proposed by economist and Democratic party figure Lyndon H. LaRouche, Jr. No pallative to the federal budget crisis will serve.

Figure 2

Ownership of U.S. government debt including U.S. sponsored agency debt

(Percent)

Debt holder	1957	1960	1965	1970	1975	1980	1981	1982
U.S. government accounts	19.3	18.6	18.7	22.5	21.4	16.2	15.2	13.3
Federal Reserve	8.7	9.2	12.0	14.2	13.5	10.8	10.4	9.4
Foreign	2.5	3.5	3.9	4.5	9.5	11.1	10.5	9.8
Household	25.6	24.9	23.5	24.1	21.8	23.4	23.7	21.0
Non-financial corporations	5.9	5.7	4.1	1.7	2.0	0.5	0.5	0.8
State and local governments	4.5	5.0	6.9	6.1	4.4	6.6	6.8	8.5
Commercial banks	22.0	21.5	19.5	17.4	17.1	14.2	13.6	13.4
Private non-bank finance	11.7	11.6	11.4	9.4	10.3	17.2	14.3	23.5

Source: U.S. Department of the Treasury.