EIR Economics

The looming bankruptcy of the United States

by Christopher White

During the period between the first week of October and the first week of December 1985, the United States economy entered into an International Monetary Fund dictated bankruptcy reorganization.

That reorganization in turn marks the end of an era in United States and world history.

The beginning bankruptcy reorganization of the predominant national economy of the Western world had been foreshadowed since the end of the first quarter of 1985. By that point, it had become clear that, given the deepening financial and economic crisis, either the power of the Executive Branch would have to be exerted on behalf of a reorganization designed to foster a reversal of the predominant tendencies of the last 25 years, or that the Executive Branch would itself be reorganized by those very financial institutions whose policies, and bankruptcy had created the crisis in the first place.

The inflection points in this process over the year were clearly marked.

First, in late March 1985, the collapse of the privately insured Ohio savings and loan system coincided with the beginning of the reversal of the run-up of the dollar on international markets. Fears for the integrity of the U.S. financial system were exacerbated as realization dawned that the future of the national currency and credit was passing into the hands of foreign interests.

Then, in June, as Maryland's privately insured savings and loans companies followed the earlier example of those of Ohio, the United States was admitted to be, for the first time since before World War I, a net debtor nation. By 1986, the United States would be the single largest debtor nation, on foreign account, in the world economy.

Over the summer and into the fall, the accelerating crisis was compounded as the reality of the Farm Credit System's bankruptcy, more than $70 billion, equivalent almost to the largest of the Third World debtor nations, or to the fourth largest bank in the United States, came to the surface. This crisis was intensified by the renewed eruption of political combat against the usurious policies of the International Monetary Fund, and associated finiancial institutions, typified by Peru's President García's debt reorganization program, and, by the realization that the international financial system could not be held together under a regime dominated by the usury and loot bloated dollar that had financed Donald Regan's so-called recovery out of the flesh and bone of the rest of the world, given the financing demands of the U.S.

government's more than $200 billion financial deficit, and the parallel trade deficit of about $150 billion.

On these matters, it was the financiers' conception of the faith and credit of the U.S. government that was called into question. The Farm Credit System typifies the problem as a whole. Not officially a government agency, the farmer's credit cooperative which used farm assets to raise commercial loans to finance farm activity, was nonetheless considered to have the implicit backing of the U.S. government. Threats were delivered to the effect that if the administration walked away from the outstanding liabilities of the farm-credit system, it would be considered to have walked away on the obligations of every other government agency, including agencies such as FHA, FHMA and GNMA, which insure the more than $1 trillion dollar market in mortgage instruments.

As in 1981-82, the threat of a financial collapse, apocalyptic in its magnitude, dissolving all in its onrush, was used to force governmental capitulation to the dictates of bloody demands for usury. The bankruptcy reorganization of the United States was put into motion.

The visible results of the decisions thus taken include

- the Group of 5 Finance Ministers' and Central Bankers' agreement to begin the devaluation of the dollar on international exchange markets, adopted in September and implemented in October.
- the asset-stripping reorganization of the bankrupt $80 billion indebtedness of the Farm Credit System.
- the legislative enactment of the Gramm-Rudman-Hollings automatic budget-cutting package.
- the decision to sell the Federal Housing Administration, the guaranteeing agency of more than $1 trillion of mortgage debt.
- the correlated implementation of the so-called "Baker Plan" to supposedly ameliorate the Third World debt crisis.

These actions, taken by officers of the U.S. government, sworn under solemn oath to uphold the United States and its Constitution, portend the suicide of the United States, the destruction of U.S. world power, and as Sen. Jeremiah Denton (R-Ala.) argued on the passage of Gramm-Rudman, sound "the death knell" for the 200 year history of the United States constitutional republican form of government.

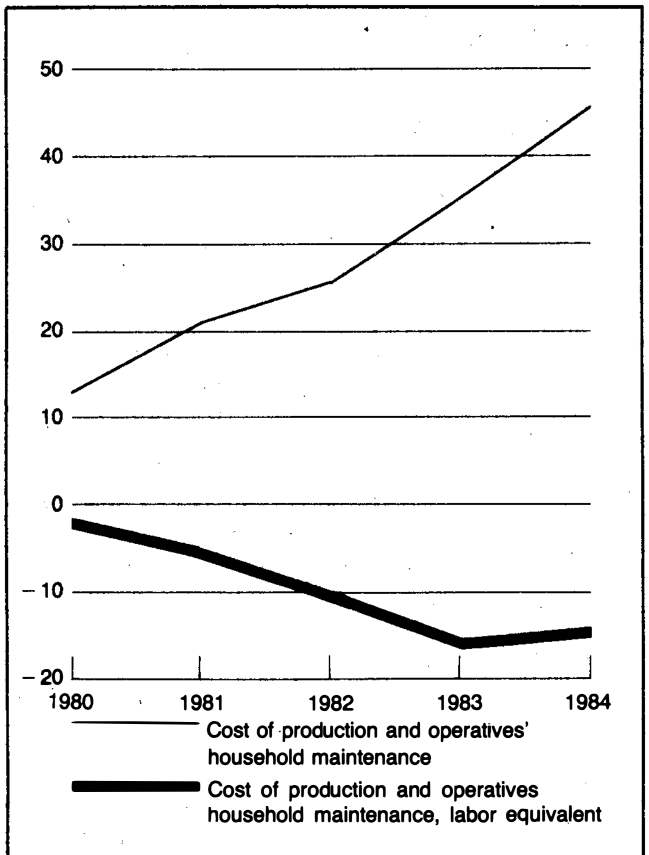
Not surprisingly, these are the same officials who have insisted since 1982-83 that the United States is undergoing an economic recovery, who have maintained that there is no necessary connection between productive economic activity, and productivity.

As in 1982, *EIR* is entitled to say, "We told you so." The bankruptcy of the institutions of state now unfolding, is the result of an unimpeded process of destruction of the productive economy, exacerbated by the piling up of the usurious claims of debt. The United States entered 1985 as the world's largest debtor, owing on internal as well as external accounts, approximately $6.75 trillion, about one-third of all world debt. We estimated, in the spring, that simply to service that mass of debt would require about $1 trillion to be gouged out of the productive economy. We argued then that it could not be done, without breaking the back of the United States as a nation.

Yet that is precisely what the present administration has undertaken to do. Over the year, the federal government's debt has increased by $500 billion, the equivalent of five debtor nations of Brazilian or Mexican size, and the indebtedness of the banking system has increased by a corresponding $500 billion.

FIGURE 1

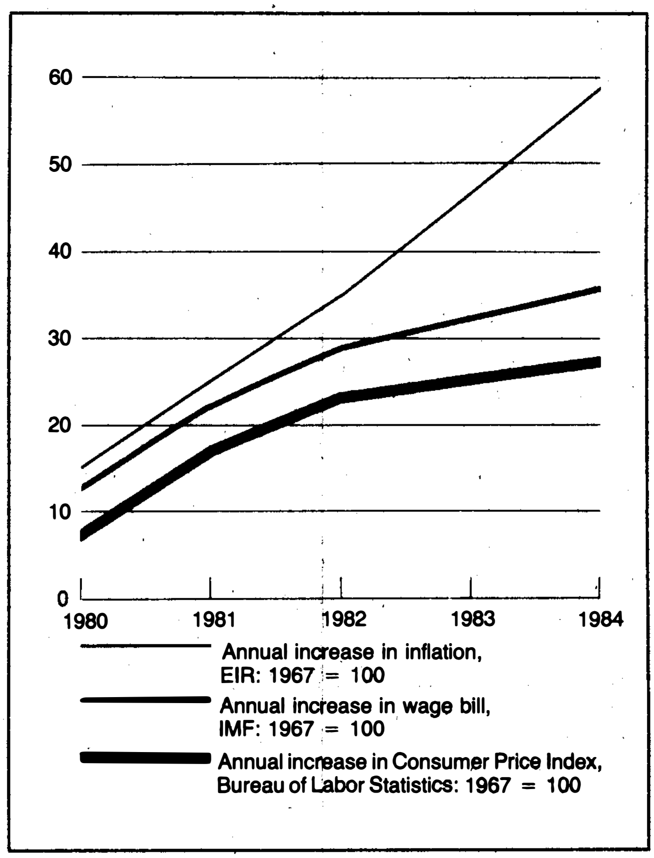
Cost of production and household maintenance, labor and monetary equivalent



Source: EIR; International Monetary Fund

FIGURE 2

Inflation and wages, EIR vs. the Consumer Price Index



The underlying process is indicated in the figures. Debt has accumulated on top of the expansion of the unproductive overhead, known to government economists, and their ideological co-thinkers, as the "service economy," or the "post-industrial society." To such people, it is not clear that the functioning of an economy depends on the production and consumption of physical goods and services, produced and distributed by labor, of defined skill levels, working with an equally defined technology.

EIR's distinction since 1979-80 has been to base its economic analysis, in first approximation, on separation of the physical process of production, from the expansion of monetary aggregates, or overhead activity as such. This has permitted the downward course of the economy to be plotted, and projected, against the lunatics and incompetents who have insisted on their fantasy that everything is really alright, or even improving.

Under conditions that prevailed in the 1960s, the cheapening of the process of production reflected in **Figure 1** would not necessarily be reflective of the accumulated disaster now unfolding. Under conditions of technological progress, on which human existence depends, the process of production is cheapened as the level of technological intensity of production is increased. The indicated decline is correlated with a decline in per capita energy consumption, for the economy as a whole, and for productive operatives, and further with a decline in the market baskets of production goods required for both household consumption, and for the maintenance of the production process itself. Since the late 1960s, both have been cut by approximately half, as the productive base of the economy has been contracted under the impact of the so-called post-industrial society. The decline is reflected as a reduction in the economy's profitability.

The difference between the decline in the index representing costs of producing the system, and the same expressed in monetary terms, approximates the rate of inflation. In these terms, the ratio of economic profitability to costs incurred in the process of production has been declining at about 1.5% per annum, while inflation has been proceeding unchecked at about 11%. The service of usurious indebtedness is compounding on top of the overall decline in the capacity of the productive economy.

This is the reality that has been covered up and lied about since the 1982-83 decision to manufacture the so-called great recovery. We have contrasted *EIR*'s productivity index with the Federal Reserve's index and the index of the Gross Domestic Product. We proved in 1983 that the former is simply put together fraudulently, exaggerating the so-called swings of the so-called business cycle to reinforce the factional issues at hand. The latter is concocted by overlooking the difference between productive and non-productive activity in the economy as a whole. With this approach, the worse things get, the better they are said to be.

The bankruptcy reorganization of the United States brings the foreseeable consequences of these crimes and incompetence home with a vengeance in treason of historical dimensions. The remaining economic potentials of the U.S industrial system are Western civilization's principal means at hand to resist the looming threat of Russian world hegemony. Under the adopted reorganization, such remaining potentials are to be dismantled. It is, furthermore, the remaining potentials of the United States which provide a worldwide margin of capability against the lawful concomitants of accelerating economic decay, famine, pestilence, and plague.

With these measures, reality, typified by the accelerating collapse of productive activity of businesses and farms, increasing unemployment among productive workers, bank failures, liquidation sales, asset stripping mergers, asserts itself. Bankruptcy and bankruptcy reorganization are the offspring of the economic depression we have been in.

The bankruptcy reorganization of the United States government is the fulchrum around which such issues will be decided, as the remaining illusions associated with Ronald Reagan's promises of 1982-83 become the evident failures of 1984-85, and the looming disasters of 1986 evaporate.

Table 1
Productive costs versus monetary aggregates
Index 1967 = 100

	Costs of production and productive labor	Monetary and productive labor	Surplus equivalent
1979	75.8	242	64.2
1980	73.6	273	58.9
1981	71.1	295	55.9
1982	67.4	310	54.7
1983	65.2	342	51.0
1984	66.2	392	54.7

Table 2
EIR profitability index vs. the Federal Reserve and gross domestic product
1967 = 100

	EIR	'Fed Index'	GDP
1979	85	152	299
1980	80	147	326
1981	80	151	367
1982	80	138	381
1983	75	147	411
1984	79	163	457

Source:
Board of Governors, Federal Reserve
International Monetary Fund

The crisis in government finances

It is the ongoing depression crisis in the economy as a whole which ensures that the measures now adopted to reorganize government finances will not work. It is of no use to turn the government into the asset-stripping enforcement arm of the financial institutions which created the crisis, in order to supposedly deal with the crisis. This adopted approach will accelerate the collapse in the economy as such, while the claims of debt service against that collapsed productive capability continue to increase geometrically.

The official illusions cultivated since 1982 insisted that if the role of big government in the economy was reduced, and the burdens of tax-payers reduced, the mighty recovery would take care of all problems. In reality, the recovery did not happen, the burden of the tax-payer was not reduced, and the so-called "role" of big government increased, even as the government abrogated its responsibilities under law, and its power.

Through 1979, the half-way point in the Carter administration, the revenues and outgoings, and also the deficit of the federal government, grew in lockstep with each other. The total indebtedness of the government grew more slowly. Then, when Paul Volcker took over the chairmanship of the Federal Reserve Board, everything came unmoored.

Government revenues continued to increase, but at a rate less than the level of inflation, which the illusions insisted had been brought under control. Claims against the Treasury's revenues escalated as the government's outgoings increased at a rate half as fast again as the revenues. The deficit, compounding on the mass of debt accumulated under Paul Volcker's high-interest rate policy, increased at four times the rate overall expenditures were increasing, and six times faster than incoming revenues.

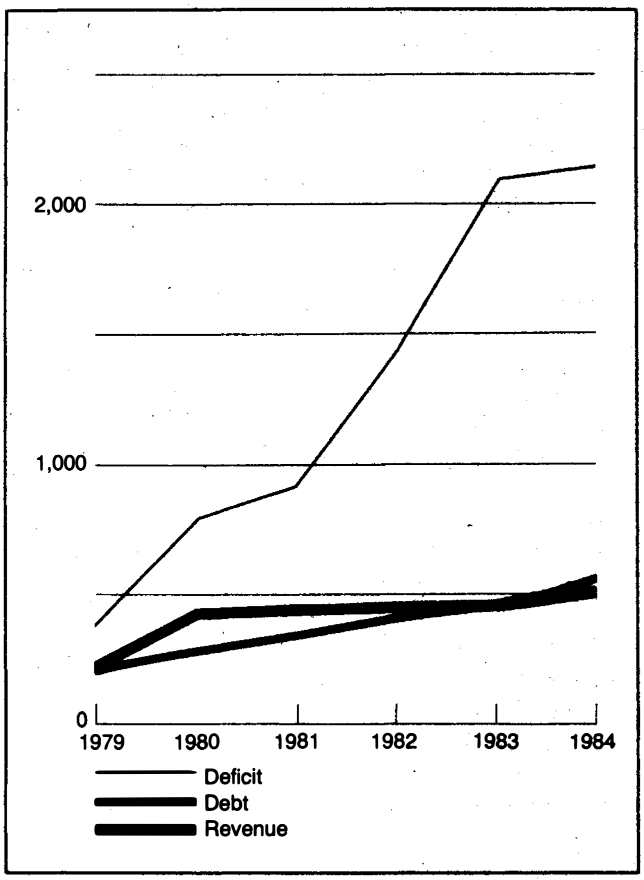
By the end of fiscal year 1985 (Sept. 30, 1985), the government's revenue from taxes amounted to $750 billion, its expenditures to about $1 trillion, its current deficit to about $250 billion, and the mass of debt carried to about $2 trillion, about 25% of the total outstanding debt claims on and within the U.S economy.

How idiotic then is the refrain of the last years. Cut the budget's outgoings to reduce the deficit. Under this policy, compounded with the mythology of the non-existent recovery, the rate of increase of the deficit has increased, while the expenditures, as a whole, have also increased. Defense spending did increase, 10% over the last year, but less than the increase in federal revenues. Expenditures for social programs increased 2%, again less than the increase in government revenues. The only part of the government's expenditure budget which increased its claim on the federal revenues was the financing requirements of the debt, which increased by 17% over the year.

This is the ranking of claims on government revenue which is institutionalized as law by Gramm-Rudman. Therefore, that law will not reduce the deficit in the government's ability to finance its own operations, and, furthermore, it is not intended that it should. Anyone who argues the reverse ought to have their head examined. This so-called deficit reduction measure raises the increasing claim of federal debt service to a sacred cow, ensuring the future, compounding increase in the debt service, with revenues otherwise appropriated for defense and social expenditures.

Under this arrangement, the deficit is supposed to be reduced to zero by 1991. But service on the Federal debt will continue to compound from today's annual level. Thus, by the year the deficit is supposed to be reduced to zero, the Federal government may be projected to have to shell out

FIGURE 3
Growth of government revenue, budget deficit, and debt
(1967 = 100)



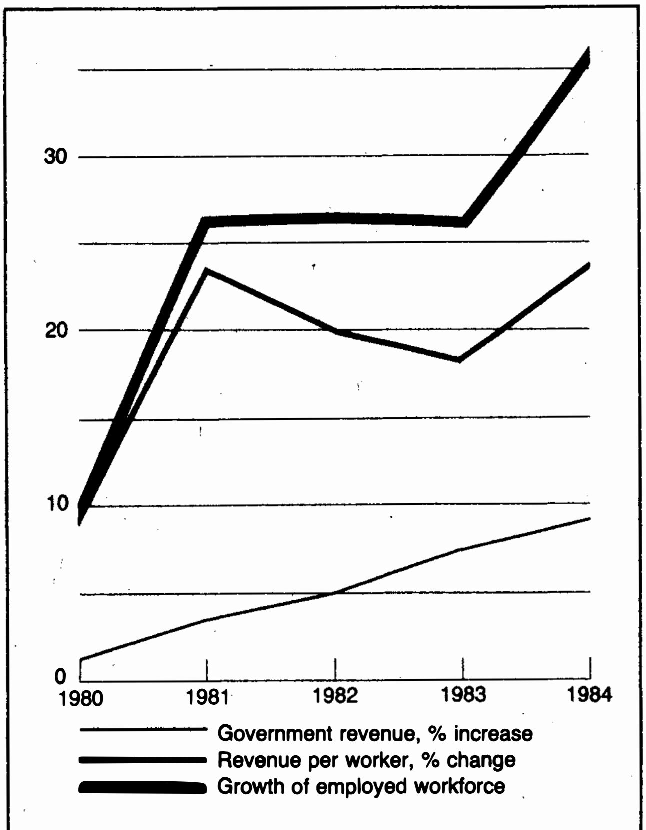
Source: IMF

Table 3
Government revenues, expenses, deficit and debt
Index 1967 = 100

	Revenue	Outgoings	Deficit	Debt
1979	321	321	320	242
1980	356	380	789	271
1981	417	439	834	304
1982	408	467	1494	364
1983	411	508	2183	433
1984	458	548	2115	506
1985	503	632	2528	738
Annualized Increase	7.3%	11.2%	45.8%	15.8%

Source: International Monetary Fund and U.S. Treasury.

FIGURE 4
Government revenue and the tax base



Source: IMF, BLS

Table 4
Taxpayers and the tax base
Index 1967 = 100

	Employment	Revenue per worker	Productive worker	Revenue per productive worker
1979	127	252	101	322
1980	128	277	98	369
1981	131	315	97	435
1982	133	304	92	448
1983	137	298	91	457
1984	139	327	94	490

Source: International Monetary Fund
Department of Commerce, Bureau of Labor Statistics

almost $400 billion in interest payments on the sacrosanct debt, then conceivably approaching the $4 trillion dollar level.

It ought to be obvious that there are two interrelated problems under discussion here. Of these, one, namely the lying legalisms adopted to protect the debt, in defiance of the Constitution's intent to secure "the safety and well-being of ourselves and our posterity," is political. There is no economic reason to tear down the nation's defenses or its health and social security system, nor could there ever be. The other, typified by the relative decline of government revenues, with respect to legitimate claims on the federal finances, is economic.

The relative health of the tax base is reflected in the national employment profile. After all, it is the employed population which is the primary source of tax receipts. The workforce since 1979 has grown, so it is said, by about 10%; that ought to have impacted on the Federal government's revenues. It has not because only part, a diminishing part, of the total supposedly employed labor force is employed productively to produce the physical wealth on which the economy's survival depends.

If the economy as a whole is treated, for accounting purposes, in the same way an integrated agro-industrial complex is treated, the costs and expenses of maintaining the economy can be identified. Costs represent here the maintenance of the physical system, such as employment, operating costs of equipment and plant, and so forth. Expenses for overhead must be covered out of the enterprise's surplus or profit.

In an economy as a whole, government finance, necessary though it be, is not accounted as part of the productive cost of running the economy, but as primarily an administrative expense of overhead, to be covered out of gross profit or surplus. Viewed in this way, the entire expense of maintaining the government's activity must ultimately be produced by the activity of the productive sector of the economy and those employed to so produce wealth. Thus, in measuring the increase in the per operative contribution to the government's finances, we are measuring the growth in the government's claim on the economy's surplus. While gross profit has been cut in half since the late 1960s, the government's claims against the gross profit of the economy have increased nearly five-fold.

That should tell us something. The problem is not the big government as such, but rather that the economy as a whole has been contracted in scale and profitability relative to the claims of usury of which 25% are passed on through the government directly, and another 25% typified by the government's mortgage insurance operations, are guaranteed by the government.

To reverse the crisis, two sorts of measures are necessary. In the first instance, to get the government out of the business of providing security and political insurance to bankrupt loan sharks. In the second, to reverse the course of the last generation, and put the economy back on the path of increasing profitability and productivity through fostering capital intensive, energy intensive technological progress.