Book Reviews

The debt crisis: Need it destroy us?

by David Goldman

The National Debt
by Lawrence Malkin
Henry Holt and Co.; New York, 1987
309 pp. hardbound $17.95

Beyond Our Means
by Alfred L. Malabre, Jr.
Random House; New York, 1987
175 pp. hardbound $17.95

Any fool can plainly see that America is sinking under a crushing weight of debt. Two of them have published books on the subject. Lawrence Malkin reports for *Time* magazine, and Alfred L. Malabre, Jr., edits economic news for the *Wall Street Journal*. They attack the debt issue with the self-righteousness of Pollyannas turned prophets-of-doom, and recommend the worst of all possible reactions to the debt crisis, namely, a general reduction in consumption. Both writers' publications contributed materially to the encroaching disaster, by insisting that all was well, when nothing was. However, while Lawrence Malkin has done a reporter's day's work in assembling the relevant data, in such fashion to be of use to the layman, Malabre has difficulty interrupting his pompous encomia long enough to present the facts.

None of the statistical data available in either book will surprise readers of *EIR*, which has devoted special attention to the emerging debt crisis. Malabre reports: "The magnitudes are awesome. In all, as a nation, we are more than $7 trillion in debt. . . . It has nearly quadrupled since the mid-1970s. It now approximates $35,000 for each man, woman, and child in the nation."

Or Malkin: "Some of the gross debt figures are so staggering as to be incomprehensible: $2 trillion owed by the federal government and rising; $1.5 trillion owed by American corporations; $1.5 trillion owed in home mortgages; $500 billion in installment credit; $300 billion owed in uncollectible debts by Third World governments to American banks; and, for the first time since World War I, more owed to foreigners by everyone in America than they owe us. . . . By the end of 1986 the pool of debt in the United States had reached $7,871,700,000,000.00—just short of a nice round eight trillion dollars or almost twice the gross national product."

Both authors include a wealth of anecdotes portraying the miserable quality of this debt, and the likelihood of default on corporate junk bonds, Third World paper, credit card debt, and so on, each in the irritating style of his own publication. Malkin includes a scenario modeled on Paul Erdman's financial-crash novels, set in 1989, on the day the Japanese stop buying U.S. Treasury securities. A fictionalized Donald Regan, back at his old firm, Merrill Lynch, bails out the Treasury by marketing U.S. government debt in the form of junk bonds, the high-interest paper used by corporate raiders to finance debt-loaded takeovers on Wall Street.

Neither has much idea why this miserable state of affairs emerged, however. Malabre's first sentence betrays his own bias: "To start, a few statistics. Nine of every ten U.S. teenagers have their own camera. Seven of every ten own a stereo. One in three has a television set. One in five has a personal phone. One in six has an automobile. One in eight has a computer. . . . The profusion of goods and services that most Americans enjoy in this century's closing years reflects a very different sort of tendency: to live beyond our means."

It does not occur to the *Wall Street Journal*'s chief economics reporter to ask how many teenagers relative to total population America has in the first place. The answer is, fewer than during any previous period of American history; the collapse of the American living standards during the past generation reflects itself, first, in the decline of our fertility rate, to less than replacement levels!

Malkin comments bitingly, "The Yuppies have done their sums and they know the answer, principal and interest: a BMW costs less than a child."

There are slightly over 150 million working-age Americans. Of these, roughly a sixth sit on the social scrap-heap, i.e., on welfare, unemployment, or private charity. Another sixth earns less than $4 an hour, in the retail and restaurant jobs that proliferated under the supposed Carter-Reagan jobs boom, while high-paying industrial jobs disappeared. Franklin Roosevelt's famous "one-third of a nation" has reappeared in the 1980s, perhaps not as ill-clad and ill-fed as during the 1930s Depression, but unable to make ends meet. Malabre, an over-age Yuppie, does not take a passing glance at the actual condition of the population.

His colleague from *Time* shows more sense. In a chapter entitled, "The Two-Tier Society: When Workers Take Hamburger Jobs," Malkin reports, "In 1985, an average 30-year-old who bought a median-priced home would have had to pay 44% of his earnings in carrying charges. At that rate, he either bought a cheaper house, sent his wife out to work, or both. In 1949, his father would have paid only 14% of his salary for carrying charges. . . .

"At mortgage rates of 10%, only about 30% of American families can afford an $85,000 house in the suburbs. . . .

"In 1973, the percentage of all women at work and the percentage of working mothers was the same, 44%. By 1984, 53% of all women worked, but 62% of all mothers did. . . .

"The creation of new jobs has been the proudest boast of the Reagan administration and the Carter administration before it. . . . Probably nine out of ten of them were low-tech or no-tech, what are indelicately known to professional statisticians as hamburger jobs. . . .

"In 1970, retail jobs paid a respectable two-thirds of manufacturing wages. By 1985, they paid less than half, or an average of $9,220 a year, which is below the poverty line."

Malkin describes, at least, what *is* happening, but remains at a loss to explain why.

Taxes and investment

Among the leading industrial nations (excepting the U.K., which is no longer what the Koreans would consider an industrial nation), the United States has the least favorable tax treatment of industrial investment, and the worst credit conditions for long-term capital investment. One startling example: The investment bank S.G. Warburg recently demonstrated that adjusting Japanese corporate earnings to American accounting standards would *double* the Japanese figure, because Japanese corporations depreciate their plant and equipment so much faster.

Why, indeed, have hamburger jobs taken over the labor market? Malkin and Malabre both suggest that excess government spending by Washington, going back to the Nixon era, puffed up the service sector. That makes no sense. Why services, and not renewal of the nation's plant and equipment? Neither work mentions the impact of Jimmy Carter's insane emphasis on energy savings, as opposed to cheap energy *production* (via nuclear power, among other efficient technologies).

Less important than how Washington spent, is how Washington taxed. The 1981 tax code virtually ordered every high-income American to find a real-estate tax shelter, and produced a 25% oversupply of commercial real estate by 1986. The 1986 tax code sought to lessen the federal budget deficit, by imposing an immediate $20 billion in tax increases on capital investment, through the rescission of the Investment Tax Credit.

Once you build the shopping center, you have to put something on it. The entire American economy during the 1980s brought to mind an anecdote Lyndon H. LaRouche likes to tell, of the real-estate operator who bought a series of Manhattan office buildings, and, to boost their value, founded the Chock Full O'Nuts coffee shop chain as an afterthought. The buildings' appreciation far exceeded the profits of the restaurants.

But that is the least interesting side of the story. Before considering debt, first look at the economy's capacity to produce a *surplus*, i.e., physical product in excess of physical production costs, and the population's ability to absorb that surplus in the form of household and industrial consumption of physical goods, such that increased consumption increases labor productivity.

The crucial change in the American economy since 1981 occurred in overseas trade. A fifth of the U.S. economy's physical consumption comes net from abroad, the largest subsidy to any important economy since the Roman Empire. America created an imperial debt system, purchasing the goods of its Ibero-American debtors in 1983, for example, for only 35% of their 1981 cost. Paper profits on real-estate speculation justified the employment of service workers, and cut-price imports fed and clothed them.

Correspondingly, the American economy's capacity to *increase* its debt, to maintain the existing debt bubble, depends upon foreigners' willingness to continue lending America $150 billion per year. Both Malkin and Malabre mention the problem, without drawing the obvious conclusion: What must be radically reformed, is America's economic relationship to the rest of the world.

Our imperial debt system has destroyed our markets in Ibero-America and other developing nations. Our capital-goods industries need favored tax treatment (for rapid depreciation of new investments) and cheap long-term credit. They also require a market for their products, and the great market of the future lies in the 4 billion inhabitants of the developing world.

It is well and good to speak of computerized assembly lines (as Malkin does in passing), and other technological improvements. But in our history, or the history of other nations, nothing short of a great national goal, requiring the cooperative efforts of scientists and engineers, reaching down to the learning-powers of skilled workers on the shop floor, has accomplished a general revolution in technology. *EIR* has emphasized the great national goals which require such a mobilization: the Strategic Defense Initiative; colonization of the Moon and Mars; a biological SDI to conquer AIDS; and related work.

Messrs. Malabre and Malkin should both be old enough to recall that the mobilization of economic forces to win the Second World War, where a full 40% of the national product was diverted to defense, produced an immediate increase in living standards. Under conditions of national economic mobilization for these goals, why, then, should consumption fall? But belt-tightening is all either author has to recommend. Let us tighten the belts of financial reporters, and put our national priorities on "no-budget" status, instead.