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U.S. revenue collapse feeds hyper-inflation, austerity

by Chris White

On Tuesday, May 9, the U.S. government begins the quarterly refinancing of its debt. Before the end of the week, more than $30 billion in redemptions and new issues of debt will have been stuffed into the markets in the biggest quarterly refinancing in history. Still unresolved, apparently, is the additional matter of where, exactly, the more than $50 billion required to complete what is now known as the administration's "June 30th Project" is to be found.

The "June 30th Project" plan is to shut down about 144 insolvent savings and loans institutions by that date. The $50 billion is the estimated price tag for the completion of the operation. Either the money is to come from yet more borrowings—an unlikely prospect given the failures of successive marketings of bonds designed for that purpose—or it is to come from sales of the assets of failed S&Ls now held by the federal government's Resolution Trust Corporation. In the latter case it might equally well be asked, where, exactly, will the supposed purchasers of government-held failed S&L assets find the cash: from sale of government-insured, mortgage-backed securities back to the federal government's agencies of original issue?

The government's accountants in the Treasury Department, and their buddies on Capitol Hill, insist that the financing requirements for the S&L closures will not affect the budget deficit. "After all, you see, we are financing the operation off-budget," they say. But they can use whatever words they want, since the words don't make any difference.

The combination of government on- and off-budget financing requirements, under conditions of accelerating deflationary collapse of the economy and financial system as a whole, are now fueling an impulse toward simultaneous hyper-inflation, and the imposition of murderous austerity, to support financial institutions and arrangements which are bankrupt many times over.

Tax revenues are in a nosedive

The best evidence for this is what Undersecretary of the Treasury for Finance Robert Glauber refused absolutely to discuss when he announced the quarterly refinancing package on May 2, namely, the matter of the government's tax receipts. Tax revenues have been in a deepening tailspin since the September to October period last fall, when Robert Campeau's Federated Department Stores went into default on Sept. 15, and the stock market collapsed on Oct. 13. By March, the collapse had reached the point that the government's monthly deficit, in excess of $50 billion, was the largest in the entirety of U.S. history. No wonder Glauber refused to discuss what has happened since tax payments came due on April 15. No wonder markets breathed a sigh of relief that the largest-ever quarterly financing in U.S. history was only slightly in excess of $30 billion.

The government's tax receipts are made up of the payments to the treasury of individuals and corporations. Their collapse reflects what the powers-that-be have refused to face since 1982, when the public relations extravaganza known as the "Great Recovery" began to come on stream—that the economy has been sliding deeper into a new depression. Since 1982-83, the so-called income or earnings against which tax obligations are assessed, whether for corporations or for households and individuals, have been supported by the biggest borrowing binge in history. The combination of indebtedness and speculative investment rose from $9.8 trillion in 1982, to $22.2 trillion by the end of 1989. The borrowing binge collapsed in September and October of 1989, when the $200 billion per annum market in below-investment grade securities, one of the means established

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since 1982 to expand the indebtedness of those who, only ten years before, would have no longer been considered creditworthy, collapsed after the failure of Campeau's real estate empire.

The collapse of last fall set off a spiral of deflationary collapse which has in the interim swept the world, wiping more than $2 trillion worth of supposed assets off the books of financial institutions and investors. Since then, the gurus in the financial community, such as Federal Reserve Board chairman Alan Greenspan and Treasury Secretary Nicholas Brady, have attempted to control the pace of events through the same methods of crisis management, blackmail, and outright thuggery which were employed to finance the borrowing binge in the first place. Spread over months rather than hours, the $2 trillion-plus in global losses accumulated since October 1989 is still far larger than the losses incurred in Wall Street's "Black Monday" on Oct. 19, 1987.

The shock of deflationary austerity

The deflation in progress spreads in its wake unemployment, the shutdown of industrial and other capacities, misery, and the brutality of austerity, reflected in the accumulated so-called budget crises of states, cities, and municipalities across the nation. To the extent economic activity continues to be sacrificed to support the usury of worthless paper holdings and bankrupt institutions, this will continue to get worse, with murderous effect.

All such crises could be resolved quite easily, as jailed political leader Lyndon LaRouche has insisted for years, if it were simply recognized that the financial system is bankrupt and were put through the equivalent of a corporate Chapter 11 reorganization, in which financial claims were set aside, in favor of rebuilding physical economic activity through investment in technology, productive employment, and infrastructure development which permits business concerns to function and tax revenues to increase.

But the problem is not only the government. It is no accident that in March, when the government's monthly deficit became the biggest in all American history, the volume of new issues floated in what had been the $200 billion per annum junk bond market, fell to zero. Nor is it an accident that over the months since September and October of last year,.
to grow.

So far, Greenspan's Federal Reserve has created credit to offset losses incurred as the deflation has gathered steam. Now the collapse of economic activity, reflected in the collapsed revenues of federal and other levels of government, combined with the collapsed earnings of corporations and individuals, and the collapse in the nominal value of much of their collateral—in the form of real estate—that has underwritten the borrowing binge, ensures that the credit creation is about to take off into the hyper-inflationary mode, or that the collapse, delayed through blackmail and thuggery, will take place with greater devastation than ever before.

Financiers cry, 'Protect the system!'

Representatives of the financial community are demanding that Greenspan hyperinflate to protect the financial system. On May 3, the so-called Group of 30, a think-tank for the combination of the largest British and American banks, issued a report under the name of one Benjamin Friedman entitled "Implications of Increasing Corporate Indebtedness for Monetary Policy." The report argues in its precis, according to the *Financial Times* of London, that "widespread fears that over-extended corporate borrowers defaulting en masse might lead to a rupture of the U.S. financial system are unfounded. . . . Actions of the Federal Reserve make a financial crisis unlikely. . . . The Fed would act vigorously should a debt-induced crisis appear imminent, the prevention of such a crisis would constrain the Fed's ability to conduct an anti-inflationary monetary policy."

The report's theme was echoed May 4 by a *Financial Times* editorial, representing the same financial interests, which read, "In these circumstances a central bank has to remember that inflation-fighting is sometimes a luxury. The most basic duty of a central bank is to preserve the functioning of the financial system in a crisis." This is what happened in 1982 when the so-called Third World debt crisis broke, and again in October 1987, the editorial affirmed. "It is now the judgment of many of those best placed to make one that the U.S. Federal Reserve is again caught in the same trap."

On May 3, Gerald Corrigan, the chief honcho at the New York district of the Federal Reserve, testified to the same effect before the Senate Banking Committee. "The system as now configured may be risk- and accident-prone, rather than risk-averse," he warned. "We have, in my view, excess capacity in large segments of banking and finance. . . . The symptoms of this condition abound in razor-thin spreads, pinched margins, and perhaps especially in the troublesome manner in which we see vast amounts of very short-term churning and trading in so many segments of the financial markets," he continued.

Corrigan is pushing the standing proposal widely circulated in the early days of Ronald Reagan's first administration and which was associated with Walter Wriston of Citibank, Donald Regan of Merrill Lynch, and then-Vice President Bush in his capacity as Chairman of the Presidential Commission on Regulatory Relief. This was to consolidate U.S. banking and finance into the hands of a mere handful of outfits, such as Citibank and Merrill Lynch, who would would grab viable assets and deposits, while everything else was permitted to rot. Corrigan is arguing for such action, since "failure could ultimately call into question the long-term viability of the dollar as the world's reserve currency."

It seems that the government's funding crisis may well be forcing these matters to the top of the agenda in the coming weeks.