

Non-money: How the deficit is created

by Chris White

The federal government's debt has been transformed into the "house bank" of the worldwide speculative casino. Twenty-six times, Alan Greenspan, chairman of the Federal Reserve, has lowered interest rates over the last two years. The liars have it that the sequence of reductions has been intended to reverse the deepening recession. Greenspan isn't one of those liars. He's different. He says that the reductions have been designed to rebuild balance sheets after the debt-bloated years of the 1980s.

He and his pals in the Bush administration and banks have created conditions in which the Federal Reserve will lend (and it only lends to banks and similar outfits) at 3%, while permitting the banks to turn around and re-lend the same funds to the U.S. Treasury at rates up to 7% and over. The 4% difference is being taken out of the hides of U.S. taxpayers. This is the swindle by means of which Greenspan, Brady, and company, respectable financial managers all, stacked the deck for the biggest speculative boom in human history.

Figures 1 and 2 show the course of interest rates in the United States in recent years, and among the United States, Germany, Japan, and Britain. The so-called spread between German and U.S. rates is what all the fuss has been about in

recent weeks. The U.S. crowd is demanding that Germany, and by extension Japan, lower interest rates such that the U.S. commercial banks can borrow in those countries on the same terms that they do from the Federal Reserve, and re-lend to the U.S. Treasury on the same terms. They are demanding that "Casino Fed" take over the world.

This is what is going on behind the biggest suckers' game of recent years, namely the one that is played out around the question of cutting the burgeoning U.S. deficit. Who actually believes the heart-wrenching tales that are circulated by Ross Perot, Warren Rudman, Paul Tsongas, and others, to the effect that we are stealing our grandchildren's money, and that the only way to stop it is to cut the federal deficit? It is indeed being ripped out of the hides of grandchildren, grandparents, and all. Cuts and tax increases will make it all much worse.

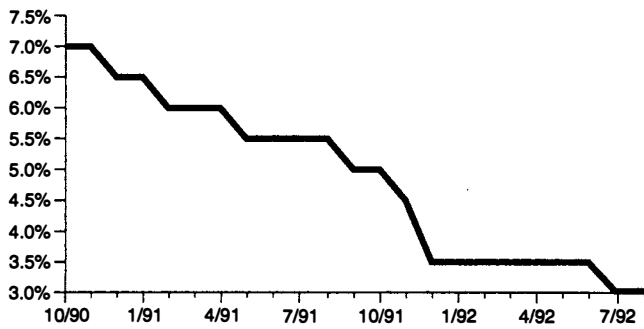
Four trillion dollars, the total debt of the U.S. government, is a lot of money. Compared to the flows of funds in currency markets and bond markets on an annualized basis, it is quite small. Are cuts and tax increases the only way to solve the problem? Not on your life. The cuts that are being discussed—one year's budget to be completely cut out of the next five—are insane.

What the deficit is made of

The people who want to cut the federal deficit should be put on the spot about the real problems. If they don't want to deal with those, they should be told to shut up. There are two problems to consider: one financial, the other economic.

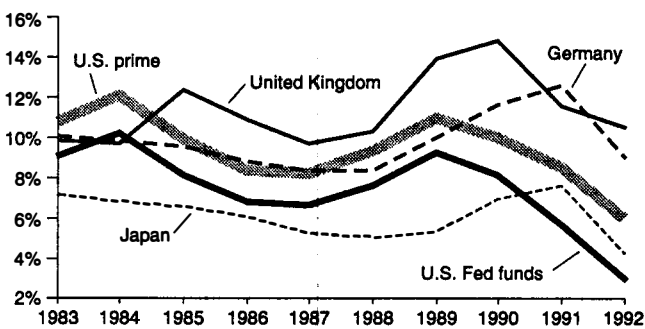
As we have seen, the federal deficit is actually helping to keep the bankrupt U.S. banking system afloat, and has been transformed into the house bank of the biggest floating crap game in human history; this via the relationship among the Treasury, the Federal Reserve, and the so-called "market." Are the people who propose to cut the federal deficit also proposing to bring that crap game to an end? If they are not,

FIGURE 1
Federal Reserve discount rate
(percent)



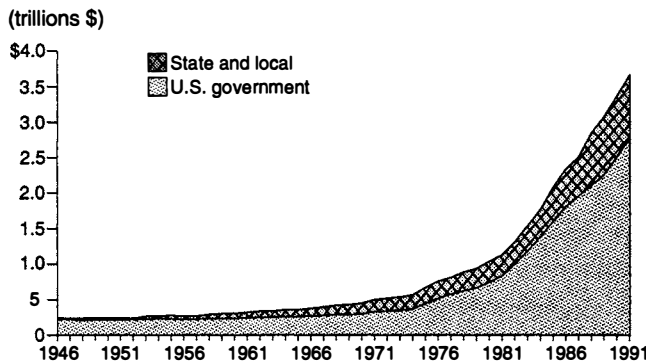
Source: EIR.

FIGURE 2
World interest rates
(percent)



Sources: Federal Reserve, EIR.

FIGURE 3
Total government credit market debt of federal, state, and local governments
 (trillions \$)



Source: Federal Reserve.

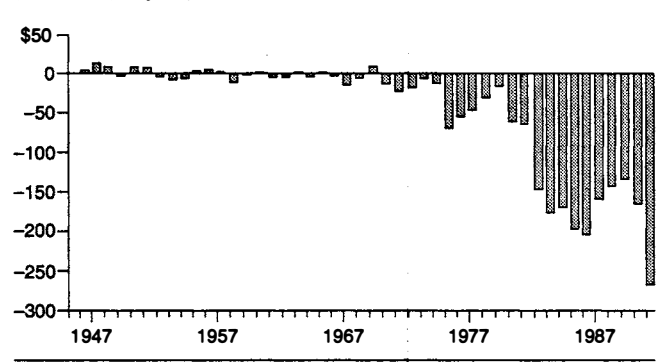
then what they are actually proposing, in the name of deficit reduction, is to transfer revenues larger than \$200 billion per year, the present annual interest on the federal debt, to participants in the crap game, and to cut essential government services, such as health, education, and defense, to do it. They are also proposing to increase the deficit by increasing the numbers of those thrown onto welfare and unemployment rolls, among other things. The idiocy is that cuts reduce revenues by increasing unemployment, for example, and, at the same time, also increase expenditures, by increasing the numbers of those in need of relief. Therefore, cuts increase the deficit. This increases, as a consequence, the amount the federal government has to borrow. It also increases the interest paid on the federal debt. This makes all the talk about "stealing from grandchildren" either the most cynical, manipulative kind of demagoguery, or the stupidest kind of ignorance.

Remember Little Red Riding Hood? "What big teeth you've got, Grandma." These swindlers have already eaten Grandma, donned her clothes, and plan now to devour her children and grandchildren.

Why not increase employment?

The charts show the growth of federal, state, and local government debt over the entire post-World War II period (Figure 3), and the growth of the budget deficit over the same period (Figure 4). You will see that where the federal debt is concerned, the first doubling took about 25 years, from 1946 to 1971, the second 9 years, the third 5 years, and in the 7 years since 1985, we have almost added a fourth, from \$2 trillion to \$4 trillion. The same pattern shows with the deficit. It might be added that any time one of the recent administrations has adopted a program to reduce the deficit, the deficit has doubled shortly thereafter. It happened with Reagan after 1981; it happened after the Gramm-Rudman-ultimate budget cutting sequestration law; it happened

FIGURE 4
Federal budget surplus or deficit
 (billions \$ per year)



Source: Federal Reserve.

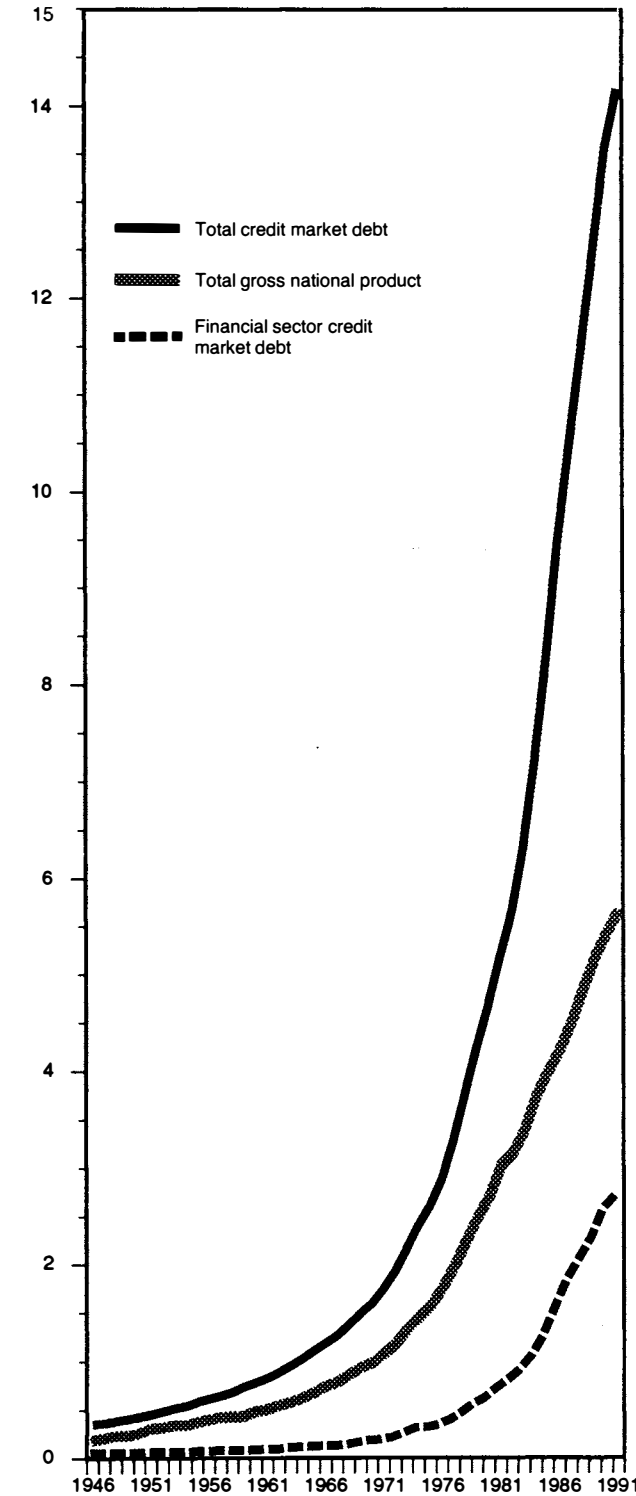
again under George Bush. The record ought to tell us that there is something wrong with the method of reducing the deficit by cutting the budget.

The increase of the deficit ought to tell us that the problem is an economic one. Revenues are not sufficient to cover government expenditures. How to increase revenues? The same people who want to cut the deficit insist, "Raise taxes." Seems obvious doesn't it? It is equally absurd. The one approach that would work has been automatically ruled out of order: that is, create new employment, thereby increasing the number of taxpayers—and the tax revenues will increase without raising taxes.

Why is the government unwilling to create employment? One reason is that the federal government's debt is by no means the entirety of the problem. Figure 5 shows the Federal Reserve's figures for total credit market debt outstanding. The numbers include debt of government at all levels, debt of financial and non-financial businesses and farms, debt of households, mortgage and consumer debt. Total debt outstanding has increased sevenfold since Nixon took the dollar off the gold standard in 1971, against a three-and-a-half times increase in the debt of government. If total debt has increased twice as fast as government debt, it ought to tell us that there's more involved than the matter of government debts and deficits (Figure 5). Then compare those rates of increase with the increase of the debt of the financial sector, over the same period. This sector's debt has increased more than tenfold since 1971, faster than the increase of the whole debt by almost 50%. The bankruptcy of the banks has pulled down the economy, which has, in its turn, bankrupted the federal government. This will not be reversed by further gutting of government revenues.

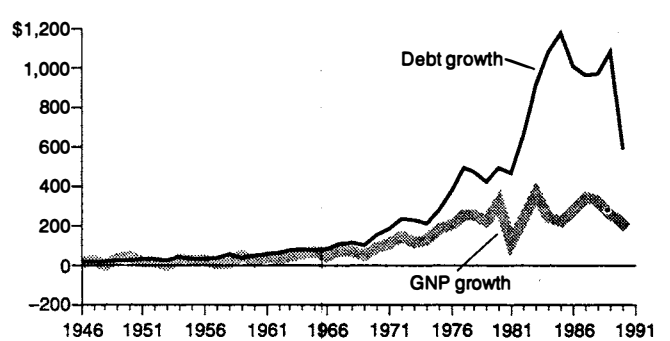
Gross National Product is supposed to be an indicator of how the economy is functioning. Actually, it isn't. It is the net of all "sales" transactions in the economy. It includes transactions which, in a proper cost-accounting system,

FIGURE 5
Total credit market debt, financial sector credit market debt, and total gross national product
 (trillions \$)



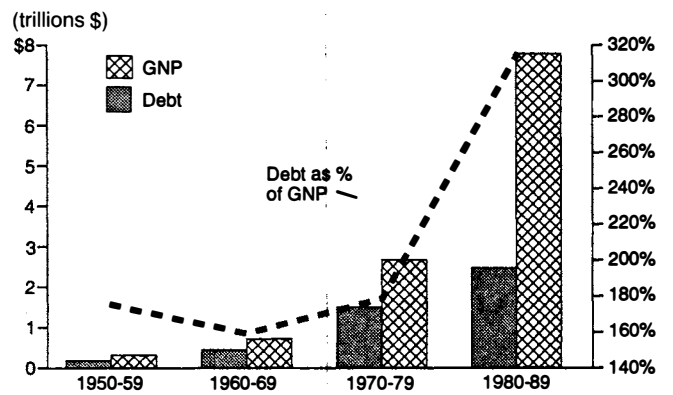
Source: Federal Reserve.

FIGURE 6
Yearly growth of credit market debt versus yearly growth of GNP
 (billions \$ per year)



Sources: Federal Reserve, *EIR*.

FIGURE 7
Growth of debt versus growth of GNP, by decade



Sources: Federal Reserve, *EIR*.

would end up on the liability side of the balance sheets, as well as including transactions which represent assets. The liability side includes transactions which encompass debt service, which is loot taken out of the economy by usurious means, especially if debt service is re-invested into more debt, or speculation, and not put back to productive use through physical capital improvements. Figure 5 shows the growth of the so-called GNP over the postwar period, and of course since 1971. Here we have a sixfold increase since that time. Less than the growth of financial sector debt, less than the growth of the total debt, more than the growth of government debt.

Since approximately 1978 we've been adding \$200-300 billion of debt, up to a record of \$600 billion in 1986, for every \$100 billion of growth in the measure known as Gross National Product (Figures 6 and 7). The rate of increase in the debt began to slow after 1986, and began to collapse

precipitously after 1990. The collapse is what Greenspan refers to as “rebuilding balance sheets.” The collapse in the rate of growth of debt coincides with the expansion of speculative activity in currency and bond markets. Greenspan, Brady, and the banks have attempted to offset the decline in debt, by moving an ever greater portion of so-called financial assets into short-term activity, increasing the velocity of throughput of speculative funds to offset the decline in absolute volume. Three-quarters of the \$4 trillion federal debt will mature during the next five years. To retire, or roll over \$600 billion per year, while running deficits in the range of \$400 billion, is to usher in the era of trillion dollar deficits, all in the name of “bringing the deficit under control.”

To do this is to safeguard the claims of debt against every other area of economic and human activity. Employment is cut for “cost containment,” or to meet interest payments. Investment is reduced. Research and development expenditures are eliminated. Education budgets are axed. All to maintain this sacred cow of debt. That’s why sanity is eliminated in the discussion of the federal deficit in favor of casino financing and the claims of debt. To permit sanity to enter in, in the form of job-creating, revenue-enhancing, changes in policy, is to destroy the present casino swindle, and the cancer of debt from which it grew.

World trade declines as speculators rush in

by Anthony K. Wikrent

Most people assume that foreign exchange trading is largely generated by foreign trade—imports and exports of actual goods and services. They’re wrong.

According to the most recent estimates, cited by U.S. Treasury Secretary Nicholas Brady at the annual meeting of the International Monetary Fund (IMF) in late September, currency trading around the world has reached the unbelievable sum of \$1 trillion every day, or around \$300 trillion a year.

By comparison, the dollar value of the world’s total foreign trade in goods and services in 1990 was, according to the IMF’s “Direction of Trade Statistics,” \$6.55 trillion. That’s the sum of both imports and exports for every country in the world. In other words, the total amount of foreign exchange trading is now about 45 times larger than the value of actual foreign trade.

Tonnage decreases

But even that comparison is misleading, because the dollar volume of world trade masks a real decline in the world’s trade of physical goods. According to the annual report *Maritime Transport*, by the Organization for Economic Cooperation and Development (OECD), the total annual tonnage carried in the world’s seaborne trade fell from a high of 3.714 billion metric tons in 1979—the year the Tokyo Round of the General Agreement on Tariffs and Trade (GATT) was implemented—to 3.090 billion metric tons in 1983, and did not surpass the 1979 level until 1989, when 3.877 billion metric tons of freight were carried on the world’s ships.

Indications from the maritime industry now are that the tonnage carried is again shrinking. The formation, in the middle of September, of a capacity-limiting agreement by shipping companies on the Europe-Asia trade lanes, leaves the intra-Asian shipping lanes as the only maritime trade routes where ship owners and operators have not attempted to cut back capacity to raise freight rates in the face of declining traffic. Twelve carriers on the North Atlantic, which have suffered up to \$400 million in losses in the past year, agreed in August to reduce shipping capacity by 20%. On every other trade route—North America-South America, North America-Asia, North America-Africa, Europe-Africa, Europe-Asia, etc.—ship owners and operators have been forced up against the wall by a decline in demand for their services. That means that there is not as much freight being carried as there was before.

It may be argued that seaborne trade reflects only part of total world trade, since significant overland movements of freight, such as occurs in North America and Europe, are not covered. However, freight movements in Asia are overwhelmingly by water, and intra-Asian trade has been the fastest-growing area of world trade. What is missed in overland freight movements in North America and Europe is probably almost entirely made up for by the relatively disproportionate use of seaborne trade in Asia.

The real collapse in actual movements of physical goods around the world is made even clearer by converting the OECD’s figures into tonnage carried per capita of world population (see figure). By this measure, world seaborne trade collapsed absolutely throughout the 1980s, as GATT “liberalized” world trade, and the U.S. Federal Reserve under Paul Volcker implemented a “controlled disintegration” of the world economy. In fact, *the per capita volume of world trade has never recovered to the levels of the mid-1970s*, and in fact continues to stagnate at levels around 12% below what it was before 1979.

Air cargo down

A major reason airlines have suffered huge losses in the past two years, is that air cargo is declining also. Airlines typically derive most of their profit from carrying cargo,