

U.S. consumer market basket shrinks to the crisis point

by Richard Freeman

Official Washington, D.C. has proclaimed that the U.S. economy is at the strongest level in a decade, growing at the rate of 4.8%, and that since January 1993, nearly 11 million new, mostly high-paying jobs having been created. There is a daily mantra in financial circles about how fast the economy is growing.

This is dangerous nonsense. Since the late-1960s, America's real physical economy has actually been contracting at the rate of 2% per year. The United States, as well as the world economy, is careening toward the worst economic-financial disintegration in 500 years.

Speaking in Monroe, Louisiana, on Sept. 9, economist Lyndon LaRouche summarized the true state of the U.S. economy: "If you measure things . . . in physical terms of the economy—you take the market basket of these things required not only for households, [but also] for infrastructure, such as water systems, rail systems, power systems, investment in agriculture, that is, the capital improvement of land, manufacturing, the percentile of the labor force which is productively employed—you come up with a calculation that says that the average person who is working today, *is receiving a household market basket about half that a person in the same occupation would have received 25 years ago. There's more money, but in terms of purchasing power, we're about half of*



"The average person who is working today, is receiving a household market basket about half that a person in the same occupation would have received 25 years ago," states Lyndon LaRouche. "There's more money, but in terms of purchasing power, we're about half of what we were." For the elderly person on a small fixed income, the declining purchasing power of the dollar is nothing short of disastrous.

what we were" (emphasis added).

The characteristic of which LaRouche speaks is the subject of this *Special Report*. Rejecting all monetary expressions as incompetent and misleading, *EIR* measures the U.S. physical economy, as well as "soft" infrastructure like health care and education, in magnitudes expressed per capita, per household, and per hectare of land. As an operational focus of this report, *EIR* put special emphasis on the purchasing power of an average worker's paycheck. Among the report's conclusions:

- Since the mid-1960s, the "consumer market basket" of essential goods, services, and infrastructure fell by half, as expressed on a per capita, per household, and per hectare basis. America cannot produce its own physical existence.

- As compared to the level half a century ago, the ratio of the productive and infrastructure workers to the total labor force, has fallen by half. As a result, during this period, manufacturing and agricultural output potential plunged. A society must produce goods, before it can consume them. Lawfully, the level of consumption tumbled.

- In 1996, it took three paychecks from three full-time jobs, to equal what one paycheck of a single manufacturing worker provided to a household in the 1950s. This is because the purchasing power of a single paycheck, to buy essential consumer items, fell by 40-80%, depending on the item. At the same time, the single wage-earner, who provided sufficient income for a family, became virtually extinct.

- Food prices of non-processed essential items, which had been declining relative to your paycheck, have now been rising sharply, with a loaf of bread going up 45% since 1990, and butter up 50% just since 1995.

- The quantity and content of hard and soft infrastructure have deteriorated greatly over the last 30 years. The network of water supply and distribution, providing clean and abundant water to agriculture and industry, as well as for drinking and personal hygiene, has fallen apart. Water withdrawals for industry decline, while water mains rupture. The air and rail transportation grids are in disarray. The amount of railroad miles operated, per household, has fallen 73% since 1950, and the average age of America's aircraft fleet has risen from 4 years in 1970, to 14 years today. The problem is typified by ValuJet Airlines. Various forms of soft infrastructure, including education and hospital service, have fallen apart.

This report puts a special emphasis on infrastructure. Next to the generation of discoveries respecting matters of fundamental scientific and epistemological principle, infrastructure is

the most important element in an economy. Yet, economists and politicians leave infrastructure out of account, and the Nazi "Contract on Americans" crew is trying to slash it further.

EIR's economic record

This "market basket" report is a continuation of ongoing *EIR* economic studies, which started when Lyndon LaRouche, working on his own, did his first economic forecast in the autumn of 1956. Over the next 40 years, LaRouche made nine forecasts, each of which has been confirmed in timely developments. LaRouche made his Ninth Forecast in the summer of 1994 (see *EIR*, June 24, 1994, "The Coming Disintegration of World Financial Markets"). Here, LaRouche forecast a global financial disintegration, which is now in process.

One of *EIR*'s most important studies, from which this report draws, was presented in early 1995, when we refuted the National Association of Manufacturers' study, "Making It in America" (*EIR*, April 14, 1995, "NAM's 'Renaissance' of U.S. Industry: It Never Happened"). *EIR* showed that the percentile of the U.S. workforce engaged in producing the market basket of consumer necessities would have to be doubled from what it was then, to provide for consumption requirements. (*EIR* is preparing an updated version of this report.)

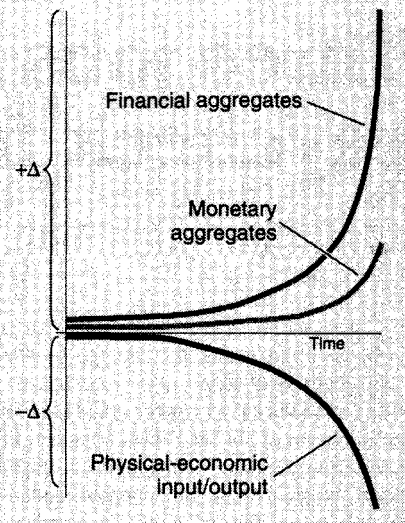
In preparing the present and other studies, *EIR* draws on a wide variety of reports by government agencies and industry associations, which are in the public domain. We rely on physical parameters, and reject monetary values. Where we compare paychecks with costs of goods, we are not concerned with dollar terms as such, *but rather the ratios*, representing purchasing power.

The accuracy of the LaRouche-*EIR* forecast and analysis stems from its underlying method. It rejects Gross Domestic Product, and focusses on what actions lead to an increase in man's potential relative population density. The consumer market basket is not a random assortment of goods. Rather, from the standpoint of true economics, man must consume an increasing quantity of goods and services, of a constantly rising quality, so that he can make a positive, improving contribution to this process of economic growth. The consumer market basket is a scientifically determined spectrum of goods. It includes decent housing, nutritious food, superior health care, plentiful clean water, and so forth.

The 'post-industrial' society

What has led to the breakdown in the U.S. economy, is the British oligarchy's imposition of the policy of the Malthusian

FIGURE 1
A typical collapse function



post-industrial society during the 1960s, following the murder of President John F. Kennedy. Under this policy, speculation flourished, while manufacturing and agriculture withered. A cancerous speculative financial bubble took over.

In December 1995, LaRouche represented this process, both in the United States and worldwide, with the typical collapse function shown in **Figure 1**. The top curve shows the financial aggregates, led by derivatives, collateralized mortgage obligations, currency trading, and the like; they have grown at a hyperbolic rate since the mid-1980s. The middle curve represents the money supply, which the central monetary authority, in the case of the United States, the Federal Reserve System, has been pumping up, to prevent the financial aggregates in the first curve from deflating and ushering in a financial breakdown. The lower curve represents the physical economy, which is not rising, but falling. The rates of return and debt on the financial and monetary aggregates are supported by sucking the lifeblood from the real economy, and from the population's living standards.

This article concentrates on the third and most crucial curve, the one that sustains all human life. A March 1996 Federal Reserve Board study confirmed that the top 10% of American households own two-thirds of all of American wealth. Yet, the condition of the bottom 80% of households is collapsing. The United States cannot continue with a 50% fall in the consumer market basket. This report is a call to action, to dump the post-industrial policies that have created this condition.