

Blumenthal's 1979 Federal Budget: Blueprint For Destruction Of The U.S.

The following analysis was written by David Goldman, USLP Director of Financial Intelligence.

Sifting through thermonuclear rubble some eons from now, a future archaeologist might be struck by a thick brown booklet, entitled, "The Budget of the United States Government: Fiscal Year 1979." After sufficient cross-checks, that researcher might be satisfied that he had discovered, in the black-and-white of official records, why the America of enduring legend had destroyed itself — much as present-day archaeologists can grid the destruction of the Babylonian Empire against economic data on surviving clay tablets.

If, indeed, the Fiscal Year 1979 Budget that Treasury Secretary Blumenthal presented on Jan. 23 remains unchallenged, the American economy will be a subject less fitting for journalism than for archaeologists. It is not just that Blumenthal's budget guts research and development, especially basic research, and therefore undermines the national security of the United States: as a unified policy document, the budget commits the United States to an economic program identical to that of Hitler and his Finance Minister, Hjalmar Schacht, during the 1930s.

Before the public release of the budget, New Solidarity exposed what the City of London and its allies inside the Carter Administration schemed for the American economy. The London scenario involved a two-tier credit system oriented toward real estate and related speculation, and away from productive investment in industry — a devil's converse of an earlier USLP plan to penalize speculative credit and create special long-term, low-interest credit facilities for industrial investments and export.

Blumenthal's Big Lie

That is precisely what Blumenthal's 1979 budget is: a plan to choke off credit for American industry in favor of real estate and related speculation. As told by the press — including the Wall Street Journal, Business Week, and other specialized financial publications — the cover story for the budget is that the total \$500.2 billion in spending is substantially no different from the last Ford Administration budget. Moreover, the federal deficit — the amount the federal government must borrow from the credit system to make up for expendi-

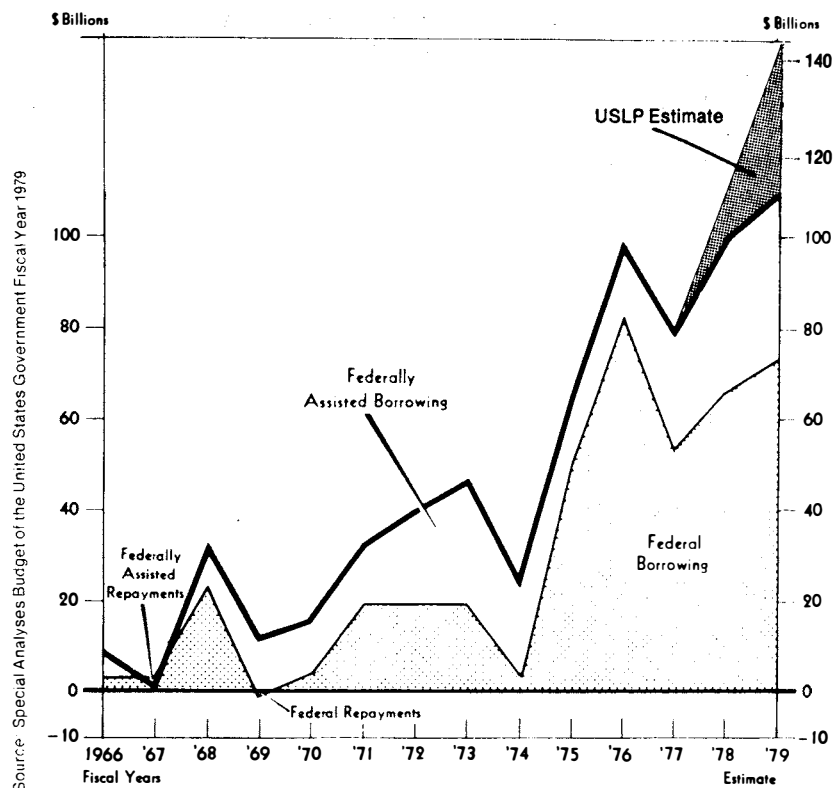
tures in excess of tax revenue — will reportedly be \$62 billion in Fiscal Year (FY) 1979 (starting on June 30, 1978), compared with \$61 billion in FY 1978, the year ending June 30, 1978.

But as Graph I shows, the actual volume of federal borrowing will total \$100 billion in the year ending June 30, 1979, by the government's own estimates! The Big Lie with numbers involves shaving off some \$30 billion in federal borrowing and expenditures, and classifying them as "off-budget" activities by "federally-sponsored agencies," a swindle invented in 1967 by the Johnson Administration.

Conservative economists get apoplexy over the \$62 billion figure, warning that federal borrowing will swamp the credit markets, push up interest rates, and choke off the flow of credit to the productive sector. As far as it goes, that is correct. The last time gross federal borrowing neared the \$100 billion mark, in 1975, the economy was in shambles, so private sector credit demand had, in fact, collapsed. None of the economists' computer models could print out the present impact — while private credit demand is at an all-time record — of a \$110 billion deficit.

Even the \$110 billion figure is a gross underestimate.

Graph I — Federal and Federally Assisted Borrowing



The Real Estate Swindle

It assumes a level of tax revenues generated by real economic growth of 4.8 percent a year through mid-1979. Even a drop in the growth rate to 3 percent by the end of 1978 — the consensus view of most forecasters — will add another \$10 billion to the deficit. The devastating impacts of this budget on the credit system will push the real economy into an absolute downturn during 1978. As Graph I shows, the last time that happened, the loss of tax revenue from the stricken economy pushed the deficit up by almost \$50 billion. On top of this, various Republican analysts pointed out certain fraudulent underestimates of spending, e.g. the \$20 billion assumption that federal agencies will spend only 88 percent of funds allocated to them, where they spent 92 percent last year.

The actual volume of federal borrowing implied by the budget is between \$140 and \$150 billion under the best conditions, or close to one-third of total spending. Since that estimate is based on publicly available information, it appears that conservative opponents of the Administration are too horrified even to perform the required addition.

But the least-informed and potentially most disastrous response is the "fiscal conservative" demand to cut essential expenditures out of the budget (not one of these "fiscal conservatives" has yet objected to the big real estate swindle, described below, which is the biggest mass corruption operation since the days of Andrew Jackson).

As far as the deficit is concerned, there will be no difficulty containing it, provided the right policies are pursued, for two reasons:

- 1) Drying out speculative fluff in the credit system, including the U.S. real estate bubble and the worst aspects of the \$600 billion Eurodollar mess, will draw vast amounts of funds from speculation and into U.S. government credit. The U.S. Labor Party has already shown how it can be done through the Eximbank ("How a Hamiltonian Eximbank Will Work," by Nancy Spannaus and David Goldman, Special Supplement to the Executive Intelligence Review, Jan. 1, 1978). Apart from the use of Eximbank to centralize the tens of billions of dollars in loose international funds under its 1945 statute, the Federal Reserve must cooperate in the interim by putting the clamps on speculative markets, and providing long-term, low interest credits to the productive sector directly.

- 2) Hamiltonian credit policies will immediately open the floodgates of suppressed demand for industrial investment at home, and for purchase of American goods abroad. Directly and indirectly, the U.S. Labor Party's proposed Eximbank strategy can generate \$100 billion of exports per year, with radiating effects several times that in terms of feeder industries, stimulated capital investment, additional consumer goods purchases, and so forth. Even more directly, government support for high-technology capital investment will unlock literally hundreds of billions of dollars in potential investment over the next two to three years.

All this creates taxable revenue — and should to the extent that the Federal government would be in position to cut taxes within six months.

Therefore, what really matters is not the mere size of the deficit, but the real economic content of government spending. Alexander Hamilton, John Quincy Adams, Henry Clay, and Abraham Lincoln used the federal budget to centralize the nation's credit for investment in national improvements — roads, canals, harbors, factories, railroads — that delineated the overall course of economic development for the "private sector." Whatever direction it takes, the federal government determines the general thrust of economic development.

In Blumenthal's budget, the *entire margin of increase* in the deficit — the "off budget," "government-sponsored agencies" — occurs in the extension of federal monies to back up the speculative market in real estate paper! As shown by Table I, the Federal National Mortgage Association, the Federal Home Loan Bank Board, and their dependents are slated to increase their borrowing from \$7 billion in (calendar year) 1977 to \$17 billion in 1978 and \$14 billion in 1979. Since the federal agencies that support agricultural credit, student loans, and other relatively useful activities will constrict their activity, the net increase in funding of real estate speculation will be close to \$12 billion during 1978.

Although the homebuilding industry and others will point out that these agencies ultimately get some real construction underway, that occurs only after the mortgage on a dwelling or office building has been traded, retraded, gambled with on the Chicago options market, discounted for cash, and so forth, many times over. Bank of America, the nation's largest bank, estimates that it turns over 80 percent of its entire portfolio of real estate paper in a single year. The Federal National Mortgage Association ("Fannie Mae"), the Government National Mortgage Association ("Ginnie Mae"), and related entities are re-discount agencies for the secondary market in real estate paper. In other words, they raise a kitty by issuing federal securities to the credit system, and become the last-in-line purchaser of real estate paper. Under present conditions, that's not much different from the government lending chips to gamblers at a Las Vegas casino. The total effect on the economy is vastly greater than the \$12 billion in new credit from these agencies — which, to add insult to injury, are now privately controlled. When the government acts as a lender of last resort to a speculative market, the total volume of new speculation made possible by the additional federal money grows in a "reserve ratio," or multiplier, on the markets. That \$12 billion will unleash several tens of billions of dollars of new real estate speculation.

Anyone who has tried to purchase a single-family home in the last couple of years knows exactly what this means. In some parts of the country, the process has grown to the proportions of the 1920s Florida land bubble. California residents have seen a \$40,000 house turn into a \$110,000 speculation over the last two years.

But the deadliest feature of the whole business is the extent to which the economy is already hooked on to the real estate bubble, which has replaced industrial investment as the driving force of economic activity. Federal Reserve Board Governor Dr. Philip Coldwell reported in a speech on Jan. 26:

Demand for credit from the private sector was especially strong (during 1977) in three major areas but relatively weak in others. The strength came in the real estate sector, as new home building increased and the multi-occupant condominium and apart segment began to redevelop. In addition to this basic demand for real estate credit though, many homeowners found that they could withdraw the equity from their homes where inflation had bid up the prices, by means of new and second mortgages. The credit going into this form raised the volume of real estate credit by a record amount.

On Wall Street, it is notorious that the American real estate boom is a British plaything. The London-based investment banks have their eyes on a managed flow of speculative foreign funds, picking up hot items through the Sunbelt and other boom areas.

In fundamental economic terms, the real estate boom of 1977 — which has a “you-ain’t-seen-nothing-yet” relationship to what the budget implies for 1978 and 1979 — channels the critical margin of new profit into *ground rent*. “Investment” in real estate creates no new wealth, or attaches a gigantic speculative premium to a relatively small amount of new wealth creation, as with homebuilding. The ground rent, or income from non-productive investments, is extracted from the productive sector of the economy, *through political strongarming*.

None of this could take place without the direct support of “federally sponsored,” privately controlled agencies like FNMA. Ground rent has been the sacrament of the British system since the 17th century, when the tith-collecting landed oligarchy allied with the House of Orange and its financial backers in Amsterdam to create the most concentrated, enduring force for evil in world history.

The point of mortal danger has already been passed when ground-rent income controls strategic portions of the credit system. That is why Fed Chairman Arthur Burns, New York Fed President Paul Volcker, the Wall Street Journal, and other voices who know better prefer to utter pompous stupidities about inflation than to attack the real inflationary horrors of the Blumenthal budget. Consumer credit, which galloped ahead last year at the rate of \$2 billion or so every month, depends heavily on second mortgages on family homes. Auto and other durable goods sales depend overwhelmingly on

consumer credit, which is now “tapped out,” in the view of every run-of-the-mill bank economist. The banking system is creaking under the weight of about \$30 billion in speculative real estate loans, most of which are goners. Chase Manhattan alone has \$5 billion worth, at least half of which are dead paper. Atlanta’s top bank, the Citizens and Southern, might have to write off 10 percent of its total loan portfolio, all real estate, the New York Times gloated in a Feb. 6 feature.

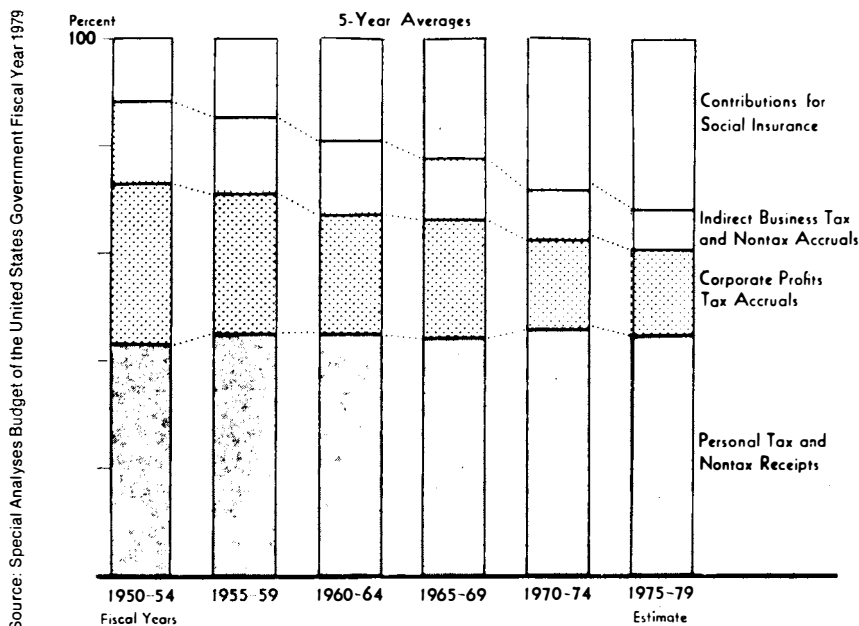
Burns and his fellow chickens are terrified that a collapse of the secondary markets for real-estate paper would take the economy down with it. As things stand, that fear is entirely justified — unless the federal government adopts a Hamiltonian economic program.

The Economy’s Deterioration

Since the federal government — whether it claims to or not — determines the nature of economic activity, the budget itself sets out crucial parameters of the economy’s health. Blumenthal’s budget demonstrates, in the nuts-and-bolts of federal income categories, that the United States will turn into a version of Hitler’s 1933-37 nightmare, unless Blumenthal is stopped.

Compare, in Graph II, the sources of federal government revenues during the Eisenhower years, on the left-hand side of the graph, and Blumenthal’s projections for the present period. The striking difference is that the corporate sector’s share of total government revenues is a third of what it was 20 years ago, while the share of social insurance contributions has tripled. This occurred despite huge, even punitive increases, in corporate income taxes. In compensation for the collapse of the industrial base of taxation, paycheck deductions and personal income taxes, which used to form roughly half the federal tax base, now form virtually all of it.

Graph II
Distribution of Federal Sector Receipts by Category



Projected into the nightmare future of a British System economy, the gutting of the federal tax base leads to a precise replica of Hjalmar Schacht's "social insurance" looting policies.

The same deterioration of the productive sector of the economy is shown in Graph III, which describes the increase of "public service," or makework employment. Federal expenditures for makework jobs will almost double during the first two years of the Carter Administration, to \$15 billion a year in mid-1979. Workers employed in leaf-raking and ditch-digging produce less real income than required to maintain a working-class family at current living standards; the result is a spiralling decline of living standards for the entire working class.

Breaking the budget down by specific programs, the Blumenthal Treasury has worked out its ground-rent, deindustrialization plans in all categories of economic activity. Total research and development expenditures are frozen at the present miserable level, adjusted for inflation, of \$23 billion in the current fiscal year, and \$25 and \$27 billion in the succeeding two fiscal years. The budget states bluntly that the most urgent R and D programs will be scrapped in favor of the most wasteful:

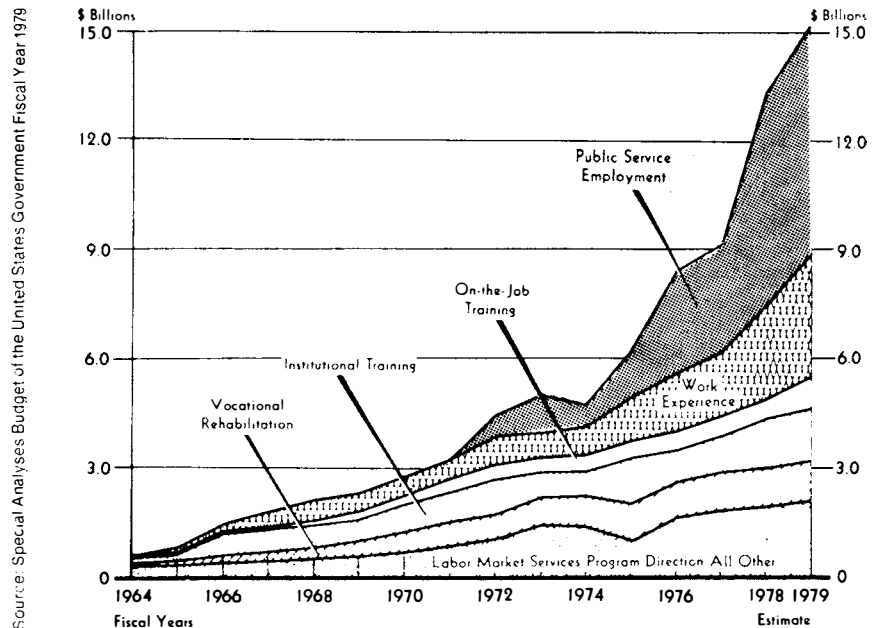
The Department of Energy will continue to develop solar, geothermal, and fossil fuel technologies, with emphasis on using coal in an environmentally acceptable manner. The Department will also continue to develop advanced nuclear power generating systems that do not increase the risks of international proliferation of nuclear weapons. *Overall funding for nuclear R and D will decrease*, however, reflecting the Administration's decision to defer the development of the liquid fast metal breeder reactor...The advanced nuclear fission R and D program is being redirected from its earlier emphasis on early commercial introduction of the liquid metal fast breeder reactor to systems that minimize the risks of international nuclear proliferation...

Efforts to package (nuclear) wastes from commercial reprocessing plants are no longer necessary, given the infinite deferral of commercial reprocessing."

The most advanced aspects of energy development are deliberately shoved aside, for all the Administration's flap about the danger of dependency on imported fuel. Funding for thermonuclear fusion research is token.

In the natural resources budget, funding for "pollution control" — i.e., compelling industries to adopt expensive and inefficient band-aid solutions rather than introducing new technologies which eliminate the source of the problem — grows geometrically.

Graph III
Federal Outlays for Employment and Job Training



Support for the agriculture sector — the most stricken of the entire depressed economy — is cut in half.

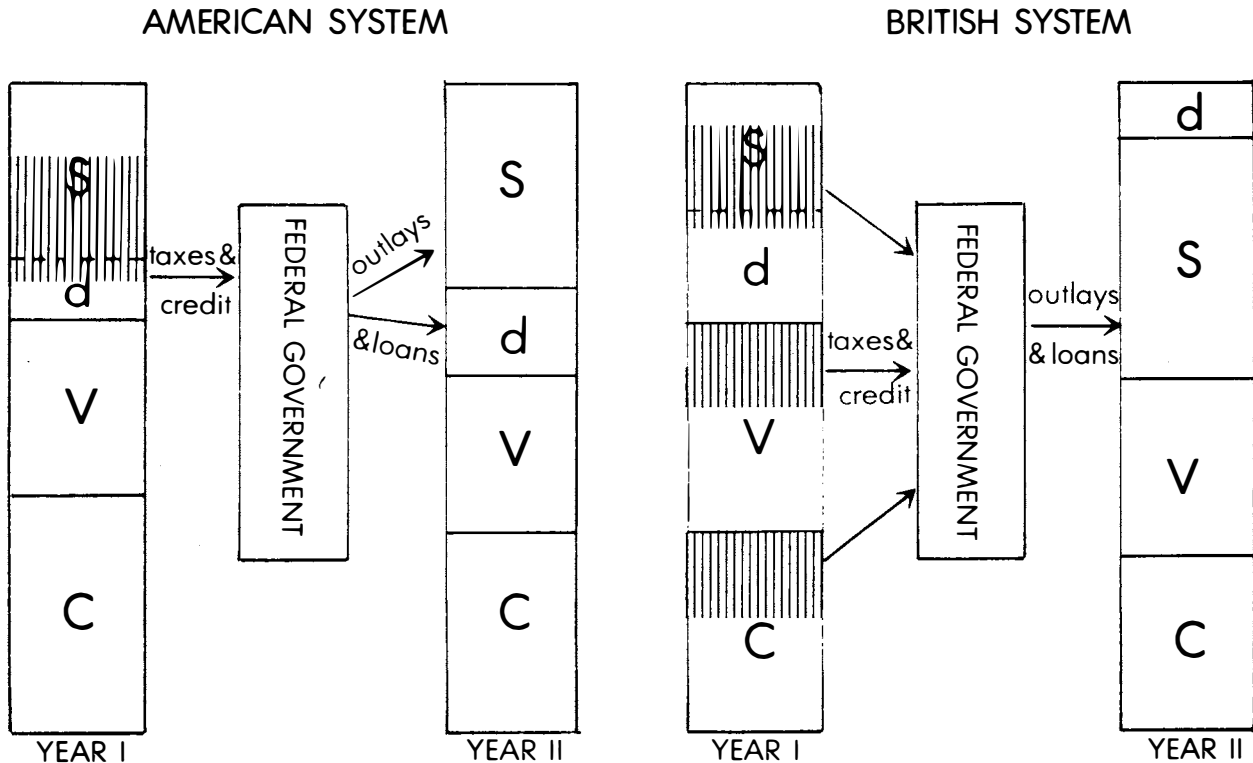
What The Federal Budget Should Be

All competent political economists of the past 600 years, most emphatically our Founding Fathers, have correctly insisted that the central purpose of the capitalist Republic is to manage the reinvestment of society's economic surplus. All economic costs fall into three categories: maintenance of the productive population at living standards commensurate with the educational and skill-demands of the workforce, or *variable capital*, maintenance of plant and equipment and other improved nature, or *constant capital*; and net real income above these requirements, or *surplus value*. Surplus value is society's fund for investment in expanded productive facilities and new technologies, and expansion of the workforce and improvement of its living standards. The surplus category also maintains the non-productive population, including scientists, doctors, teachers and — when abused — investment bankers, prostitutes, excess government and corporate bureaucracy, and similar waste.

Competent allocation of surplus income demands the highest degree of mastery of human science. The required standpoint is the application of available frontier technologies for the greatest enhancement of man's power over nature, and deliberate generation of new frontier technologies through increased commitments to basic research. That is the only important subject of economics, and the single overriding task of the Republic.

According to the strict demands of the U.S. Constitution, which dedicates the American Republic to the task of progress, the federal budget must be *dirigist*, that is, it must appropriate a portion of social surplus, and

Graph IV



allocate it to create the most effective diffusion of technological advances through the economy. Specifically, the federal government must take on the groundbreaking work of developing nuclear fission and fusion energy, related industrial processes, space exploration, and basic research in all scientific fields. Further, it must assure the availability of the right type of long-term credit for industrial investment and international development.

The federal government can appropriate surplus in two different ways. Less preferred is taxation of corporate profits and the upper range of personal incomes (surplus income) and direct funding of the required programs. The more "energy-dense" method of accomplishing the same goal is to organize the "private sector" to take on the tasks of development, by channeling the most important credit flows into high-technology industrial investment. That was the purpose of Alexander Hamilton's Bank of the United States, as well as the U.S. Labor Party's proposed Third National Bank of the United States, and the related interim proposal to

activate the commercial banking powers of the Exim-bank.

Under American System economics (Graph IV), the federal government appropriates a portion of social surplus, or S, either through taxation or through directing part of the monetary form of the surplus into a national banking system. It reallocates the surplus into industrial investment, part of S, and related scientific activity not directly productive, in d.

Blumenthal's FY 1979 Budget, by contrast, is illustrated in Graph IV, the "British System." Acting as a looting instrument for the London clique, the federal government obtains funds either through taxation of, or borrowing from, social surplus (S), working-class family income (V), and the fund for capital maintenance (C). It then channels this income into the London clique's speculative real estate and similar operations, the non-productive sector, that is, d. Such is the British System model of government finance — the one conservatives have in their minds' eye when they scream about "Big Government."