LaRouche model shows dereg effects

As stated above, the LaRouche Economic Model demonstrates that the lower economic growth which would result from trucking deregulation would cost the American economy a stupendous $489 billion in lost output over the next four years. Table 1 illustrates exactly how much industrial output would be produced each year under two scenarios. The first scenario assumes no changes in present economic conditions, including continued regulation of the motor carrier industry. The second assumes no changes *except* for deregulation of the motor carrier industry.

It must be emphasized that this $489 billion is *not* lost Gross National Product. Gross National Product is an essentially useless measure of economic activity, because it includes every form of economic wastage, from government and private-sector paper-shuffling to casino gambling. (If Senator Kennedy succeeded in his plan to legalize the marijuana traffic, the result would be the biggest spurt of economic growth in American history under the Gross National Product measurement—because the $50 billion of that illegal drug now sold every year in the U.S. would be added to the Gross National Product figures. Undoubtedly, Kennedy would then propose to hold down inflation by cutting the pushers' wages!). If we were to measure the loss in Gross National Product terms—the way the same academic fakers who want deregulation would—the figure would be substantially higher.

It should be added that the cited $489 billion loss is in 1979 dollars—or about equal to one-sixth of this year's expected output. Of course, that figure is the sum of the losses to production in each year. Over four years, trucking deregulation means $489 billion less in home consumption goods, capital investment, and social services. To be precise,

• Investment in services will lose $262 billion;

• Investment in expanding or improving the living standard of the goods-producing workforce will lose $38 billion; and

• Investment in production facilities, including replacing or modernizing plant and equipment and purchasing raw materials, will lose $188 billion.

Above, we demonstrated that increased cost of service, accident costs, insurance costs, and general inefficiency in the economy can be estimated with a fair degree of precision. We found that the increased direct charges resulting from deregulation would come to $21 billion. We also found that delivery times would rise substantially, within the range indicated by the difference between current British and West German levels.

To estimate these charges' effect on the nation's economy, the LaRouche model shows how they interfere with the way the economy reproduces itself. Every extra dollar spent on transporting goods is a dollar less paid for hiring new workers, purchasing raw materials or energy, or expanding plant and equipment. Even worse, every extra day added to the "turnaround time" of the economy—the time it takes to complete the production and distribution cycle of a single commodity—decreases the economy's productivity.

The LaRouche model, developed by Fusion Energy Foundation scientists and U.S. Labor Party economists according to the U.S. Labor Party chairman's specifications, is uniquely qualified to handle this kind of problem. The type of model employed by academic economists makes two fundamental blunders. First, it expresses everything in terms of Gross National Product; this enables the academics to argue that there will be no problem if the economy's energy supply shuts down, *if* we open up enough gambling casinos—because GNP will still be the same. Secondly, these models do not pretend to show how the economy works. Instead, they rely on the likelihood of coincidences repeating themselves. For example, if for a certain period of years inflation seems to coincide with the appearance of sunspots, the academics would feel within their rights to write an equation for the "correlation" between inflation and sunspots! That is not an exaggeration, but the precise recommendation of John Maynard Keynes himself.

LaRouche's model, by contrast, shows how real wealth is actually produced. The model divides the economy's tangible output (or the output of any smaller part of the economy) into three types of goods. The first are goods used by industry to purchase raw materials or machines, or *constant capital*. The second are consumption goods paid to goods-producing workers, called variable capital. The third are goods used in the service industries, either to build office buildings or pay office workers and the like. Overhead costs of all kinds, including military production and production of so-called antipollution devices, are included in the final category, which is designated by the small letter, d. These three categories show how productive the economy is, namely, how much tangible output is produced by a certain amount of labor of the part of goods-producing workers. By calculating the *productivity rate* of the economy on this basis, the model can show the effect of changes in productivity. For example, if the introduction of new technologies enables the same amount of labor to produce more tangible output, the model can project that economy's rate of growth into

the future by programming in the higher rate of productivity. On the other hand, if additional transportation times makes the economy less productive, the model can do the reverse, and show the decline in productivity.

Also, if additional overhead costs, such as antipollution expenditures, military spending, or transportation costs occur, the model can show the impact directly. By deducting the amount of goods that can be reinvested into new production and adding this amount to the overhead cost, the model shows the impact of less productive investment over time.

In each case, the model's purpose is to make the *productivity of labor* the determining question in economics. It is a *causal*, rather than a "correlative" (i.e., coincidence) model, in that it shows the real cause-and-effect of production of tangible wealth. In this case of trucking deregulation, it shows the effect of the various costs and inefficiencies described in the previous sections.
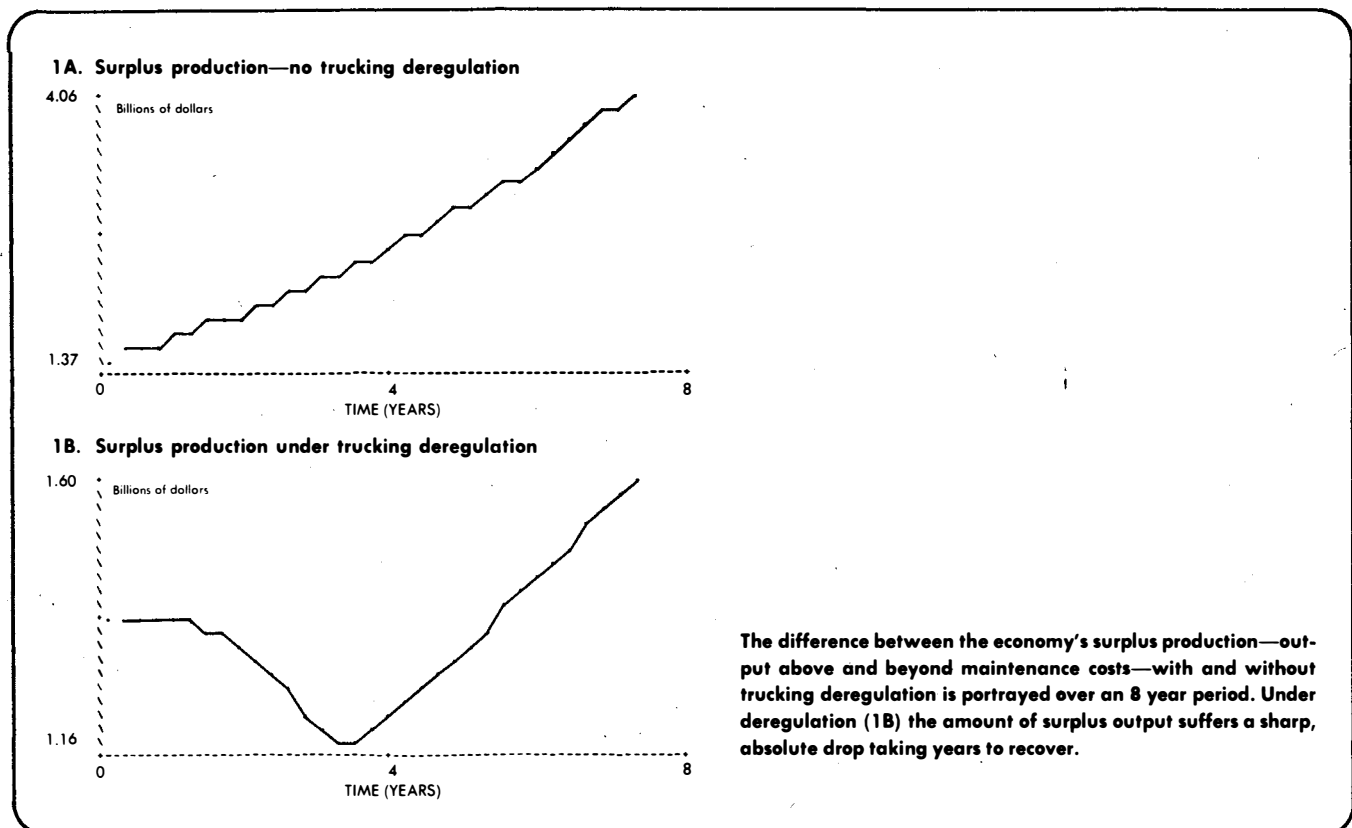
The model and productivity

We will explain how we estimated these effects, and then explain a series of graphs illustrating the development of the U.S. economy with and without deregulation.

1) As noted above, the extra charges to the economy resulting from deregulation will amount to over $21 billion, including
  a) Increase in freight costs—$7.2 billion;
  b) Reduction of service to rural communities—$4.4 billion;
  c) Higher insurance and accident costs—$3.5 billion;
  d) Cuts in union wages—$5.1 billion.
These costs now become charges against the rest of the economy, that is, against reinvestment of each year's surplus production into new constant capital and variable capital. This reduces the economy's future ability to reproduce itself.

2) As explained above, productivity in the economy is a factor of time, and an increase in transportation time can become a significant factor in decreasing the economy's productivity. Since average delivery time in the United States is now about 1.5 days, according to numerous interviews with carriers around the country, and inventory time of goods is on average 39 days, transportation is an insignificant factor. However, if time increased substantially, transportation would become a major inhibition on productivity. We estimated above that under deregulation, delivery time would worsen from West German levels to British levels—or by a factor of four. For use in the model, however, we adopted the most conservative approach possible, and

1A. Surplus production—no trucking deregulation

4.06
Billions of dollars

1.37

0   4   8
TIME (YEARS)

1B. Surplus production under trucking deregulation

1.60
Billions of dollars

1.16

0   4   8
TIME (YEARS)

The difference between the economy's surplus production—output above and beyond maintenance costs—with and without trucking deregulation is portrayed over an 8 year period. Under deregulation (1B) the amount of surplus output suffers a sharp, absolute drop taking years to recover.

assumed that transportation time would merely rise by a factor of two. It was decided to use the lowest reasonable estimate, and give the adversary the benefit of the doubt.

To reiterate: the scenario on which the assumption of increased transport time after deregulation rests is the following. Unlimited market access would give 100,000 independent truckers entry into the most lucrative trucking routes. Since these routes are the ones that provide most of the profitability of the carriers (rural routes which carriers must serve under ICC regulation are marginally profitable), the massive entry of the independents into these markets will sharply lower the profitability of the major carriers. Collapse of profitability of major carriers will prevent investment in expansion and maintenance of the most advanced terminal facilities, which account for the very low delivery time in the United States.

Equating "turnaround time" in the economy to productivity, and assuming a rise in total turnaround time (inventory plus transportation time) to 42 days from 40.5 days, the model is programmed to show a 4 percent drop in productivity over four years after deregulation (4 percent equals 40.5 divided by 42).

The results are shown in the accompanying graphs. Graphs 1A and 1B show the difference between the economy's surplus production (output above and beyond replacement costs). Under deregulation, the amount of surplus suffers a sharp absolute drop, taking
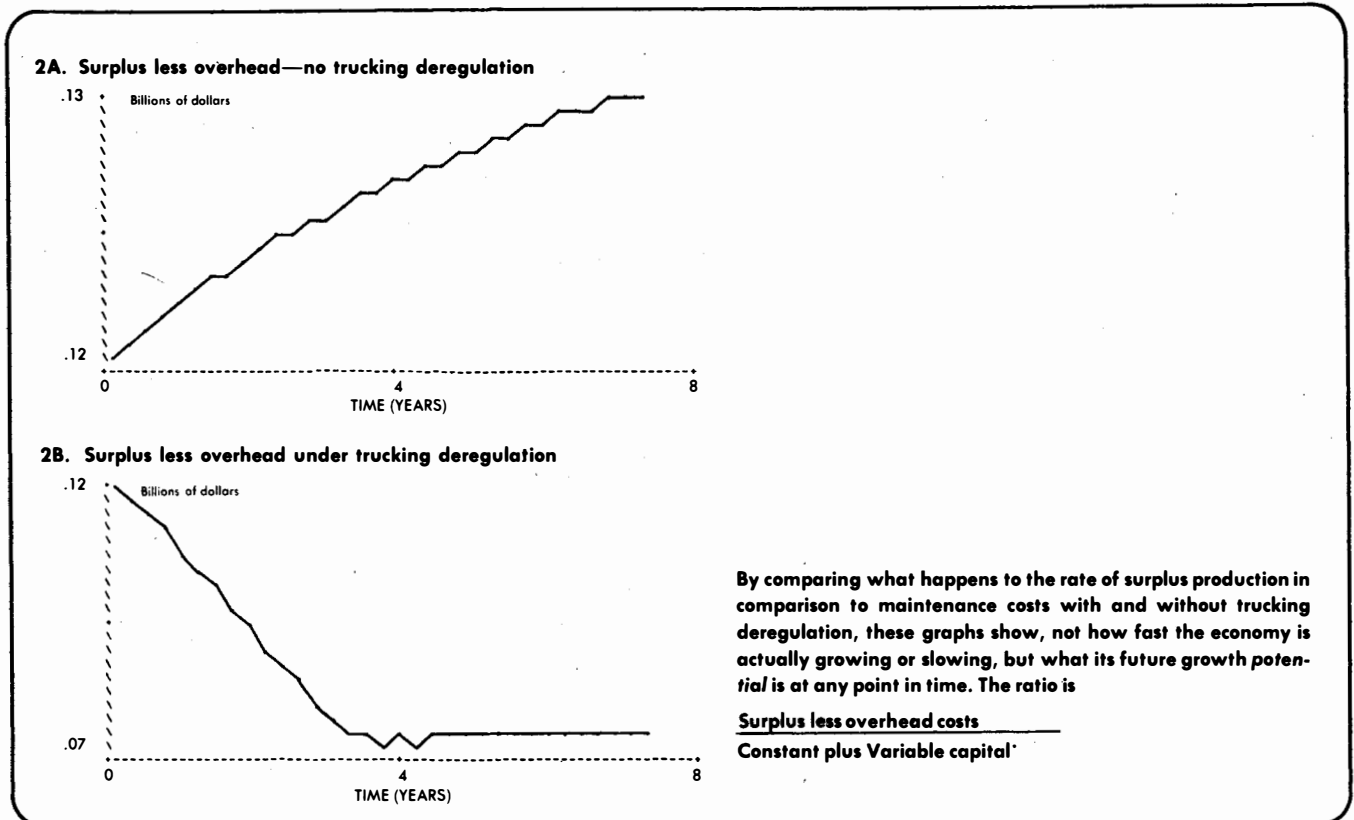
years to recover its rate of growth.

Graphs 2A and 2B are far more revealing. They show what happens to the LaRouche model's basic economic index—the "free energy" of the economy. These graphs chart what happens to the rate of surplus production compared to maintenance costs, or,

$$\frac{\text{surplus production less overhead costs}}{\text{CONSTANT CAPITAL PLUS VARIABLE CAPITAL}}$$

This ratio shows not how fast the economy is growing or slowing down, but what its future growth potential is at any point in time. If the amount of surplus production is falling sharply at any given point in time relative to the existing maintenance costs of the economy—overhead, constant capital and variable capital— then the country is in real trouble. Graph 2B, the deregulation case, is the best measure of what Senator Kennedy's plan would do to the United States. It shows that even after the level of surplus output (shown in Graph 2A) has started to rise after several years of collapse, the economy's "free energy" still has not recovered.

The remaining graphs show the consumption of goods-producing workers, or variable capital, under the two cases, and the level of new investment in raw materials and plant and equipment. Graphs 3A and 3B show the effect on variable capital; Graphs 4A and 4B show the effect on constant capital.

2A. Surplus less overhead—no trucking deregulation

2B. Surplus less overhead under trucking deregulation

By comparing what happens to the rate of surplus production in comparison to maintenance costs with and without trucking deregulation, these graphs show, not how fast the economy is actually growing or slowing, but what its future growth *potential* is at any point in time. The ratio is

$$\frac{\text{Surplus less overhead costs}}{\text{Constant plus Variable capital}}$$

The graphs are based on data that include a constant 6 percent inflation rate through 1987; therefore, the numbers that appear on the graphs are larger than the deflated numbers listed in Table 1.

It must be emphasized that Graphs 1A, 2A, 3A and 4A do not show what *should* happen to the U.S. economy. They merely show what *would* happen if the economy continues to drift along at the basic growth rates and with the same criteria for reinvestment of surplus that have prevailed over the past 10 years.

Although the projection of present conditions into the future looks good by comparison with what would happen if deregulation made things worse, this is by no means an ideal scenario. Far from it: Under a LaRouche Presidency, the rate of growth of the U.S. economy would be several times that shown. Introduction of new technologies, financing of exports of high technology goods, elimination of speculation against the dollar and on other financial markets, large-scale production of nuclear energy, and other planks of LaRouche's 1980 platform would produce rates of growth this country has not seen since the height of the production mobilization of the Second World War.
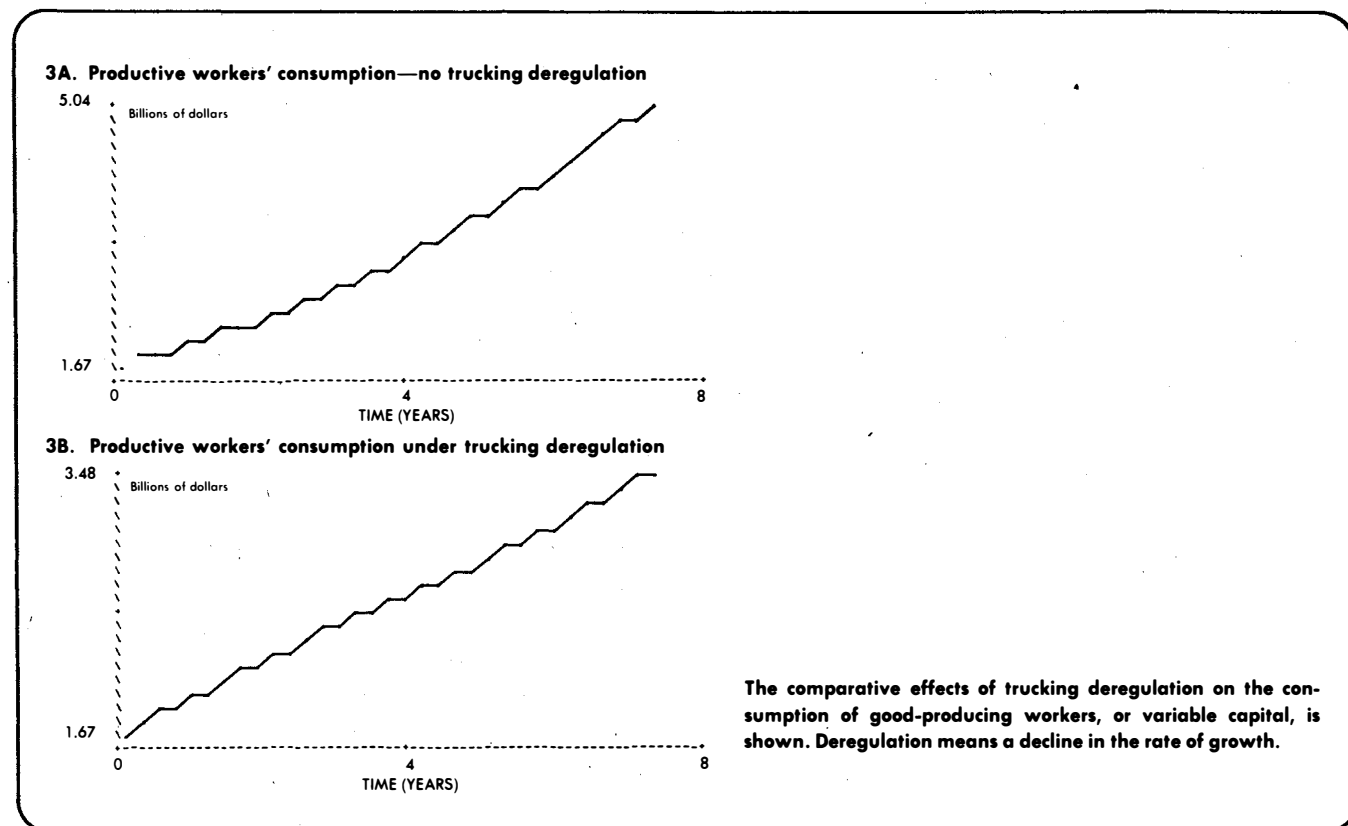
Point of no return

There is a second result of the model's results, just as important as the results of the first five years of deregulation reported above. This result cannot be reported

in numbers, because, after the first five years of economic dislocation, the numbers jump off the board. If we continue adding up the costs, we reach the astronomical figure of several trillions of dollars of output by the seventh and eighth years after deregulation comes into effect.

What this shows is that the American economy will have broken down, past a type of point of no return. The transportation infrastructure will have been destroyed, and with it, the basis for economic reproduction. The computer-generated graphs indicate this by showing that the crucial free energy ratio—investable surplus divided by constant capital and variable capital—remains flat on the floor after the fourth year. No economy can run under such conditions.

Fundamentally, the costs of this form of breakdown crisis are *unpredictable*, past a certain point in time. Visualize what deregulation means: major sections of the American continent cut out of economic life, assembly-line shutdowns due to slow and erratic deliveries, lines in front of food stores, and other earmarks of a Third World economy. America will have lost a half-century of economic progress. Economic dislocation will run wild, in an uncontrollable chain reaction.

The LaRouche model was designed specifically to demonstrate what the ultimate consequences of economic policy will be. At the point where numbers shoot off the graphs, the model has flashed an alarm signal that an irreparable disaster is just down the road.

3A. Productive workers' consumption—no trucking deregulation

5.04

Billions of dollars

1.67

0   4   8
TIME (YEARS)

3B. Productive workers' consumption under trucking deregulation

3.48

Billions of dollars

1.67

0   4   8
TIME (YEARS)

The comparative effects of trucking deregulation on the consumption of good-producing workers, or variable capital, is shown. Deregulation means a decline in the rate of growth.

The coincidence models of the Wharton School, which cannot distinguish between a machine tool and a slot machine in their Gross National Product print-outs, are totally incapable of producing such results. The Wharton School economist is like a man in a canoe who ignores evidence that a waterfall is just around the bend, because he cannot detect any change in the depth of the water!

In fact, so-called economic models of the Wharton School type have few pretenses of predicting economic developments. *They are a device for blinding policymakers to the real consequences of their decisions.* Because they merely string together historical coincidences in the behavior of data that is in any case meaningless, the Wharton model and its siblings can be rigged to show any result the econometrician cares to. In particular, these models shut out the consequences of policy disasters, and, by their intrinsic prejudices, rule out any major improvement in the economy which would violate old patterns of behavior.

Wharton and its imitators have run a highly effective form of deception politics against the American business community. A case in point is the National Farm Bureau's stand in favor of trucking deregulation. Although the Bureau's activities are mostly to be praised, it has made the mistake of buying the Wharton School's model of the agricultural economy, and missed the boat on some of the most pressing economic issues. More than any other organization, the Farm Bureau—once it cuts Wharton out of its budget—has an obligation to fight Kennedy's deregulation plan. Its members, whose high standard of agricultural technology depends on efficient transport and distribution through rural areas, would suffer more than any other American constituency through the amputation of rural areas from the nation's transport grid.

Beyond the petty level of the number-bound assistant professors who crank out the Wharton School's predictions, at the level of the elite gentlemen who provide their employment, there are no such illusions. The mother institution of the Wharton School and other econometric fakers is the New York Council on Foreign Relations. In a remarkable burst of frankness, the Council on Foreign Relations earlier this year published a set of book-length volumes collectively titled the "1980s Project." The project benefited from the direction of Michael Blumenthal, Cyrus Vance, Richard Cooper, and other men who are now cabinet officers in the Carter administration. In their published account of their views on the next decade, these gentlemen glibly predict the "controlled disintegration" of the world economy. In no way do they object, at least not qualitatively, to the results of the LaRouche model's evaluation of their stated policies.

4A. New investment—no trucking deregulation

25.56 Billions of dollars

9.11

0   4   8
TIME (YEARS)

4B. New investment under trucking deregulation

17.97 Billions of dollars

9.11

0   4   8
TIME (YEARS)

The comparative effects of trucking deregulation on the level of new investments in plant and raw materials is shown—a significant slowing in the rate will result from deregulation.