EIR Economics

EIR's June Quarterly shows why U.S. faces bankruptcy

EIR's Quarterly Economic Report on the second quarter of 1985 was released June 15. Entitled "The Looming Bankruptcy of the United States," the report surveys the national assets available to back up the nearly $7 trillion outstanding liabilities in the credit system, and concludes that it is not only the banking system as such, but the national credit system as a whole which is bankrupt.

If present policies inherited from the Carter-Volcker combination are continued, the report argues, the United States economy will enter a phase-change over the coming weeks and months. Already evident in the renewed liquidation collapse of basic industry, agriculture, and infrastructure, into another downward ratchet of Paul Volcker's depression, that shift could take either of the two forms identified by leading economist Lyndon H. LaRouche in his introduction to *EIR's* first *Quarterly Economic Report* of the year.

In that location, LaRouche established that the continuation of the depression policies associated with Volcker's rule at the Federal Reserve, would either lead into a deflationary-type collapse of imputed paper assets, or into a hyperinflation of paper values. Efforts to avoid either course would feed into the impulses fueling the other.

Under either course, the downward spiral of the physical economy would continue. For under either course the physical economy's capacity to function, in terms of maintenance of plant, equipment, and infrastructure, and the consumption of the work-force, is being looted for the account of waste, parasitism, and usury.

The relative growth of the paper, monetary values associated with the latter criminal, and border-line, or legalized criminal activities, is what prompts the ideologized proponents of Donald Regan's and Paul Volcker's fictitious "recovery" to continue to spout their lunacies.

The report establishes that by the beginning of 1985 the costs incurred in maintaining the existing capacity of the physical economy to function were being looted at a rate approaching $1.5 trillion per annum. Concretely this total breaks down as follows:

1) $100 billion per annum necessary investment in the maintenance of plant and equipment of the nation's largely obsolete industry, that is not being made;

2) $250 billion per annum necessary investment in that nation's basic economic infrastructure, that is, energy production and distribution systems, transportation systems, and urban infrastructure, such as water purification, and sewage systems;

3) $600 billion underinvestment in the nation's wage bill;

4) $400 billion to the account of the trade deficit, officially appraised at $135 billion.

Import dependency

The latter typifies the lunacies in thinking that pervade the whole. Imported goods, from clothing and household appliances, to capital goods such as machine tools and forging equipment, now account for some 30% of the required inputs of the U.S. economy on a yearly basis. Labor unions and manufacturers' associations, working through senators like Danforth and Specter, have demanded protectionist tariffs against what they call the flood of imported products.

They do not ask whether the United States, by early 1985 80% dependent on imported tractors, for example, still has the capacity to produce in the areas of activity supplanted by imports. Nor do they translate the international over-valuation of the purchasing, or looting power, of Donald Regan's dollar into its domestic purchasing equivalent.

But if industry, and household consumption, are one-third dependent on imports, then one-third of the internal expenditures of those sections are for the account of imports. Therefore the trade deficit should rightly be estimated at the level indicated.

The economy and its work-force cannot continue to be looted in the indicated fashion. The toleration of the policies which have brought Volcker's depression upon us, in the name of the Great Recovery, has brought the country to the breaking point.

For example, in the hyperinflationary variant, the cost-expense ratio of the U.S. economy, that is crudely, investment in productive activity against the expense of maintaining overhead, whether economic, administrative, or waste, crime, and usury, has deteriorated over the years since 1980 from $1.00 of investment in production to $4.40 in overhead, to reach $1:$7.60 by early 1985. It is projected that this ratio would shift further to about $1:$13.0 over the period ahead. That is the equivalent of $1 of production being chased by about $13.00 of paper.

Alternately, in the deflationary variant, by one available route, under present policies, the devaluation of the dollar, mooted by international financial agencies, such as the International Monetary Fund, would increase the monetary valuation of imports by the amount of the devaluation, and reduce domestic consumption proportionately.

This identified turning point in the economy, registered in the credit and financial system by the ongoing wave of bank closures, and the spreading liquidation pattern in industry, agriculture, and infrastructure, is examined in light of the two other principal threats faced by the United States.

These are, firstly, the Russian buildup to achieve potential war-winning advantage, by perhaps as early as 1988, and secondly, the threat of the emergence of global forms of pandemic and epidemic killer disease, as the world economy is pushed toward that threshold by the "conditionalities" policies of the International Monetary Fund.

The bankruptcy collapse of the United States economy is the adjunct feature of Soviet strategy which Marshal Ogarkov and his associates in the Kremlin military dictatorship count on, as decisive, in the unfolding of their war plan to take global power from a humiliated, and self-destroyed United States, in the final years of the present decade. Equally, it is the downward spiral of the United States economy, which is dragging the rest of the world over the threshold of the outbreak of the cited forms of pandemic and epidemic disease.

The market-basket

An included new feature of *EIR*'s *Quarterly Economic Report* is the analysis of the economy from the standpoint of the market-basket. For this report *EIR*'s Economics Staff reduced available data from the United States to assemble a review of the market-basket of household consumption for the span from 1950 down to the present.

The analysis presented shows an overall more than 40% reduction in household consumption since the early 1960s, when it was still the case that a single wage-earner could support a family household which included two or more children. This is no longer the case, and has not been for some time.

Opposite to the government bureaucrats who compile the Consumer Price Index, used to calculate cost of living increases on the wage, social security, and pension payments of about 80 million Americans, the commodity basket approach of LaRouche does not assume that the wage packet, in monetary terms, is something self-evident, or that what wage and salary earners spend their wages or salaries on is simply a matter of preference.

The commodity basket approach examines the production of the physical commodities required to support households in the reproduction of the labor force, that there might be another generation so employed. Thus the consumption patterns of the 1950s, 1960s, 1970s, and 1980s were measured against both family formation, and fecundity, and the production of the commodities that comprise the household market basket. This includes, food requirements, clothing, transportation, housing, health, and education.

Allowing for insanity in the organization of U.S. national life, as indicated by the predominance of the inefficient automobile, since the destruction of public transportation systems in the late 1940s and early 1950s, and by the inefficient and costly way in which we build substandard housing units, rather than investing in infrastructure improvement to permit the creation of new cities, instead of bedroom communities, the report nonetheless shows how far we have fallen, both from maintaining the production required to support family fecundity, and from maintaining the existent family household's standard of living.

The collapse of household consumption, combined with the collapse in infrastructure, create the preconditions for the epidemic spread of deadly disease inside the United States.

For reference, if a family of four were now to eat according to the nutritional standards of the U.S. Department of Agriculture for a "moderate" diet, it would require an after-tax income of about $38,000 per annum, but only about 12% of the nation's 80 million households earn so much in a year. What the bureaucrats call consumer "preference" is what everyone knows it to be: austerity against household consumption under conditions of economic collapse.

This analysis will be extended to the production of producers' goods in *EIR*'s next report, scheduled for publication Sept. 15.

Meanwhile, the emergency is already upon us.