Stop The 'Crash Of '79' Now

A nonpartisan action program for '78 from the U.S. Labor Party

The last issue of the Executive Intelligence Review *featured a call by Lyndon H. LaRouche, Jr., chairman of the U.S. Labor Party, for the creation of a nonpartisan "policy counterpole" to guide the United States on the most crucial issues of national and international interest. In the June 20 issue of the Labor Party's newspaper* New Solidarity, *LaRouche put forward the program and political perspective for that counterpole formation. We reprint LaRouche's proposal in full here.*

If a suitable combination of forces within the United States begins to move in concert with our nation's keystone allies, quickly enough, we have the correlation of forces needed to halt the present depression spiral and to establish a *permanent* economic boom. The present governments of Japan, France, Italy, Mexico, the Federal Republic of Germany, and others are committed to a global economic prosperity program known as the Grand Design. Both the governments of the Soviet Union and of Cuba have committed themselves to global economic, military and political agreements in collaboration with the Grand Design policies embedded in the May 1978 Schmidt-Brezhnev accords. These efforts are still moving slowly — too slowly — because most of these nations are waiting for key forces within the United States to join openly in pushing forward these Grand Design policies.

Behind closed doors, key U.S. industrial leadership and some portions of commercial banking leadership are prepared to commit themselves to such Grand Design policies on condition that a broader popular political base can be created within the USA to support such export centered economic recovery efforts. The political base exists among the top leadership and base of the NAACP, among technologically progressive American farmers, among the top leaderships of some trade unions — such as the IBT, USWA, IBEW and building trades unions — and among the majority of the rank and file and secondary leadership of many other trade unions, including the UAW. If these sections of the general electorate, and others, are properly informed of the solutions available, the majority of the electorate can be quickly rallied to create a political juggernaut for the policies required to launch an accelerating and permanent economic recovery.

The problem is that the majority which would rally to such a policy is presently atomized, to the effect that a tiny section of the trade union leadership, a small group of London-allied investment bankers, and a small minority of both the Republican and Democratic parties' leading circles are controlling U.S. foreign and domestic policies by default. In effect, a minority based on less than 30 percent of the general electorate, on the anglophile liberals, Buckleyites, and radicals, is plunging the majority of the population and the economy into an imminent general depression and worse.

The special nonpartisan function of the U.S. Labor Party, as so far the only consistently vocal public voice for policies in the nation's vital interests, is to present the comprehensive policy package needed to bring the atomized forces of the nation's majority together. The following policies outline the crucial elements of the comprehensive thrust which will work to the desired effect.

General Policy

The general policy is based on the fact that effectively directed advances in the technology of industry, agriculture, and infrastructure enable increases in per capita output to the effect that profits and real incomes can rise in parallel. This policy is also based on the corollary fact that technological stagnation infallibly causes marginal depletion of primary resources, such that the per capita outputs fall secularly, driving down both per capita real incomes and profits.

> The Grand Design policy means an accelerating expansion of world market volumes: the policies of the IMF, World Bank, and "Brandt Commission" mean a catastrophic collapse of the world economy.

The billions of the developing sector could make a massive contribution to global wealth if two conditions were fulfilled. They must undergo rapid advancement in the technology of industry, agriculture, and infrastructure under conditions of the replacement of presently backward modes through expansion of relatively advanced modes of production. The ability to use high-technology tools efficiently depends upon a matching cultural enhancement of the labor forces to be employed. Education, the material conditions of household life, and other essential elements of social infrastructure are indispensable included means for developing a labor force adequate to advancement in the mode of production.

Under the policies proposed presently by the International Monetary Fund, World Bank, the "Brandt Commission," and like-thinking institutions, the mass of non-performing debt of the developing (and other) nations will simply be pyramided through refinancing measures proposed, while the collapse of world trade combined with a labor-intensive policy in those nations guts the ability to pay current obligations. So, the lunatic policies of the IMF, World Bank, and "Brandt Commission" mean a pattern of spiraling debt service combined with a downward spiraling of ability to pay, and an overall effect of a collapse in primary commodity requirements as part of a general collapse of world trade.

The Grand Design policy means an accelerating expansion of world market volumes: the policies of the IMF, World Bank, and "Brandt Commission" mean a catastrophic collapse of the world economy combined with economic-genocidal effects and permanent social instability and wars throughout the developing sector.

The key to the success of the Grand Design policies is the proper organization of long-term, low-interest credit. Agricultural projects cannot reach a breakeven point in less than 7 to 15 years. Capital-intensive energy projects require a comparable period from beginning of construction to self-sustaining payout. In general, long-term financing of less than 15- to 25-year maturities is economic lunacy for the developing nations' markets. Also, for related reasons, initial grace periods must match the maturities of the projects involved.

If debt service obligations rise more rapidly than new income developed, the premature accumulations of debt service abort both world trade and continued development. Thus, a development program financed over too short a term tends to collapse financially at a point prior to the phase of maturity at which it would otherwise become a substantial income producer. If financing is gauged to practicable performances of new projects, the income generated by the projects feeds an accelerating rate of credit-worthiness of those nations for additional projects. This ought to be ABC to any industrialist or commercial banker from experience in successful (and unsuccessful) investments in his own nation.

This depends upon a massive flow of relatively cheap long-term credit and cheap credit for short-term trade financing. This requires the following policies.

In the long term, the ability of capital-exporting nations to sustain long-term advances of credit to importing nations depends upon a corresponding, allocable margin of above-breakeven income to the exporting nations.

The present mess in the City of London illustrates the point. The United Kingdom is operating currently below the breakeven level of tangible output: it is in fact gutting the constant capital of its industrial sector and infrastructure in the effort to keep the decaying British economy from internal collapse. The capital exports from the City of London are predominantly of a purely parasitical form. London seeks to borrow cheaper from the Federal Republic of Germany (etc.) and to loan dearer. The net income of Britain, and especially the City of London, depends upon keeping this parasitical banking role. London has a negative capability of capital exports and credit on the account of the internal economy of the United Kingdom itself. London demands that Germany and Japan simultaneously reduce their export earnings, while also demanding that Germany and Japan increase their loans to the City of London relending market. It is sheer economic and monetary lunacy, but the world market is for the moment ruled by precisely such lunacy.

In order to continue such an arrangement, London is forced to peg prevailing lending rates constantly higher. The inflationary forces generated by combined effects of collapsing hard-commodity production and trade drive the basic interest rates upward, in a race between interest rates and inflation nourished by high interest rates. So, the price at which London must reborrow to lend goes constantly up, inflation is thus accelerated, high interest rates drive down levels of world trade and production, inflation is pushed higher by this effect, and the London rate climbs without limit.

For the British economy there is no direct solution. The internal economy of the United Kingdom is too dilapidated to recover by means directly available to it. It is presently incapable of generating a net national surplus on production and trade accounts.

The idled margins of other industrialized economies, especially those of the United States, Japan, and the Federal Republic of Germany, do represent an available margin of increased marketable output for exports and internal retooling for exports sufficient to generate a substantial margin of world export surplus to be absorbed in net as capital-goods, high-technology imports by the billions of people of the developing nations.

This will have massive benefits for the internal economies of the industrialized nations. By absorbing the idled portions of the nations' labor forces in employment in presently idled and expanded export-levered production, the real incomes of those nations are substantially increased while the direct and indirect costs of unemployment and underemployment are reduced. The internal tax base of each nation is expanded, reducing the tax burden on a dollar-equivalent of real income produced. An export drive based on "technology transfer" to the developing nations can be financed out of conversion to credit of a portion of the increased incomes of the industrialized nations while catalyzing a self-generating internal economic boom in each of those national economies.

> We have the means to halt monetary inflation, almost to a dead stop, provided we take measures of the sort indicated.

As the developing nations increase their buying power, they will quickly reach the levels of earnings sufficient to carry properly scheduled margins of increasing debts, and over the intermediate term will reach levels sufficient to meet requirements of properly rescheduled, carried-forward debts from the pre-Grand Design period. At the same time, these nations will be increasing markets for imports on current account. As the initial, intermediate term of five-seven years is completed, the global economic boom launched will become a self-generating, permanent economic boom.

Financing

For the longer term financing of exports, the new credit must be low-cost, long-term credit generated by national governments, as a by-product of the fiscal operations of national governments. In the short term, we have at present an excess of liquidity, especially dollar liquidity, in international markets. Immediately, we must concentrate on converting that excess liquidity into investment funds for relatively low-interest, long-term investments and short-term, hard-commodity trade financing.

To accomplish this short-term objective, we must take the following steps.

We must "dry out" the high-interest financial markets. A new international banking institution must be created, and all national governments participating in this effort must concur in lending and borrowing funds of central banks and national treasuries through that new banking institution at low interest rates. The idled liquidity must thus be confronted with the alternative of being either hung out to dry or buying low-yield, but secure, long-term bonds in such an international banking institution, or other banking institutions, or national debt instruments of the same qualities. We control the excess liquidity by creating painful disincentives for participating in high-interest speculative markets, and creating durable incentives for secure investments in low-interest markets.

In general, respecting the mass of outstanding high-interest debt, we must dry out this portion of the financial markets by purchasing existing debt with issues of low-interest debt. The case of the New York City debt and portions of the USA internal real estate bubble are examples of this.

Let us consider the New York City debt as an example of the overall approach. If we issue *low-interest*, long-term instruments against outstanding debt, with the backing of national credit for this operation, the new, low-interest debt instruments can serve as high-grade negotiable paper within the commercial banking system, which can then be discounted with the Federal Reserve System to the effect that commercial banks increase their lending power for loans to useful purposes.

The feasibility of this arrangement depends upon other measures, some of which we shall outline here, and depends especially upon stopping monetary inflation. We have the means to halt monetary inflation, almost to a dead stop, provided we take measures of the sort indicated.

If the obligations of debtor nations to the IMF and World Bank are frozen for the medium term, the remaining margins of Third World and other foreign debt balances can be successfully reorganized along the lines we have indicated for the New York City debt. The point is that the IMF and World Bank are obliged to nations, such that payments to the IMF and World Bank can be frozen for the medium term without any of those dangerous effects of freezing obligations to the private banking system. If the remaining margins of developing nations' carried-forward debt are exchanged for long-term, low-interest debt, those new instruments will serve as assets in the portfolios of commercial and investment banking institutions, which can be pledged or sold to obtain new reserves.

This operation will require legislative and other action to reduce the borrowing costs of commercial banks, an action which can be shown to be overwhelmingly equitable if inflation is halted.

The two, interrelated chief causes of inflation are the current downward spiral of production and world trade, and rising borrowing costs. If world trade and hard-commodity production are increased and borrowing costs for productive purposes sharply reduced, the engine of inflation is stopped. Inflation then tends to converge downward on the margin of cheapening of the competitive costs of production and distribution — that is, on the margin of lag between cheapening of commodity costs and declines in prices reflecting such cheapening. Under these conditions, basic central bank interest rates in the order of between one and two percent are feasible. Those prime central bank interest rates, coupled with an export drive, are the preconditions for halting inflation and ensuring a permanent economic boom.

It is to be emphasized that the danger to our commercial banking system is the high ratio of overextended paper in the banks' portfolios. By taking coordinated action to halt inflation and increase production and trade, this poor paper can be exchanged for high-grade, low-interest, negotiable paper. In that way, the present danger can be converted into a solid asset . . . as Alexander Hamilton did successfully with U.S. indebtedness during the Administration of President George Washington.

The overall financing policy must center around a *two-tier* credit market, both within the United States and in international markets. We now outline the proper principles of U.S domestic fiscal and credit policies.

The Use of Incentives

The desperate gentlemen from the City of London, including the London *Economist* branch of the British Secret Intelligence Service, are once against attempting to manipulate the credulous folk around Washington and lower Manhattan as London has successfully duped and swindled the U.S. financial and political policymakers so many times before during this century. The immediate problem is that many credulous folk around lower Manhattan have made a 20th century "American tradition" of being swindled by London, clinging firmly to a dupe's ideology whose code-phrase is "free trade." Although the United States was founded upon the *dirigist* principles associated with Alexander Hamilton, and the American Revolution fought against the British monarchy and City of London to make us an industrial nation, the dupes around lower Manhattan have foolishly confused British policies with American industrial-capitalist policies.

The economic function of the federal government in an industrial-capitalist republic is chiefly to promote abundant credit for technological progress in industry, science, and agriculture, and to undertake those specific economic measures, especially in infrastructural development, which cannot be accomplished by private firms. The central task of the federal government in this connection is to shape federal fiscal policies and national banking and credit policies to provide incentives for productive efforts by private citizens and to let the greater burden of taxation and borrowing costs fall upon those private ventures and other activities which are less desirable.

We begin with fiscal policy, emphasizing tax policies.

Proper tax policy begins with a definition of those components of national income which make the most direct contribution to increasing the national income. These are, categorically, science, industry, agriculture, basic income of households, and essential infrastructure of both economic and social life. Development of scientific progress, increasing the output and profitability of industry and agriculture, maintaining and developing the labor force, and providing the infrastructure essential to all these are the primary economic concerns of our republic's fiscal and credit policies.

Let us begin with household income. Our present personal income tax policy is based on schedules established during the Second World War, employing schedules of exemption which, including later adjustments, do not reflect the massive inflation which has occurred since 1940-1942. In consequence we have reached the condition of absurdity in which we maintain vast bureaucracies, first to tax portions of basic household income which ought not to be taxed, and then to manage the distribution of portions of federal, state and local revenues to make up for parts of the household income lost through taxation.

There are, admittedly, activities in which the federal, state or local governments could more efficiently purchase services for household consumption than can be accomplished through individual household purchases of such services. A major element of cost in the New York City public transit system is the collection of fares. If fares were eliminated, and such transit services provided out of the general fund, a vast economy would be effected in the New York transit system operations, an economy which could be divided between cheapening the cost of the service per person served and capital improvements.

Such proper forms of centralized governmental purchases on behalf of households — water, streets, police and fire services, and so forth — ought not to be confused with the case in which a number of bureaucrats are employed by the government to manage the individual disbursement of services to individual households. The administrative side of the vast social services bureaucracy is the best known of the horror shows created by a misguided, British-influenced outgrowth of the British Settlement House movement and social work profession and bureaucracy.

We must rapidly increase the tax exemptions on household incomes, as rapidly as such a readjustment can be absorbed into our practice, taking the government out of all unnecessary, bureaucratic administration of transfer payments from and into household income and equivalents. We must simplify our tax system in this way, using threshold levels of household income to determine which portion of households falls into taxable categories.

Admittedly, feasibility studies are needed to determine the details of such a policy, but the principle is clear and the obviously feasible first steps in this direction ought to be implemented as part of adoption of such a guiding policy.

The immediate gut of our tax policy problem is the matter of taxation of industry, agriculture, and private infrastructural entities.

The basic approach is to set a high basic tax rate, but to offset that basic tax rate with substantial tax credits for productive improvements. The point is made clear with the following exemplary illustrations.

We must accelerate our depreciation and depletion allowances for tangible improvements in industry, land and infrastructure. In general, despite all the misguided chatter about investment tax incentives as a "tax giveaway," our national depreciation and depletion allowances for improvements have always been significantly less than sound economic principles dictate.

> The more citizens' self-government is built into fiscal and credit policies, the more we gain from the benefits of the individual intelligences of citizens.

What we have done with our policy trends in combined fiscal and credit policies is to favor unproductive speculative gains as investments over productive investments. The dupes of the London *Economist* who howl against dirigist policies have never, to our knowledge, objected to the fact that the postwar policies of the federal, state and local governments have been predominantly dirigist in respect of providing major incentives for inflationary speculative investments over productive investments. "What is good for the goose is good for the gander, gentlemen; we simply propose to reverse the balance in *the kinds of dirigist policies you yourselves have supported over the past 30 years.*" We shall use tax and credit policies to make productive investment far more profitable than unproductive speculations in unimproved assets.

For example, Citizen A has purchased equity in the XYZ widget manufacturing firm. Citizen A receives very nice dividends from this investment. If Citizen A uses these dividends for purchase of *primary issues* of equities themselves used for expansion or improvement of industry, agriculture, infrastructure, or scientific ventures, Citizen A will receive, in effect, an attractive "tax loophole" as incentive for serving the national interest. If he retains the income, he faces the following alternative. The portion of income accounted as household income is treated as such. If Citizen A merely saves the income above household consumption, or invests in something beside the creation of tangible improvements in the national interest, the full weight of tax schedules strikes that portion of the citizen's income.

This benefit on reinvestment of profits is accomplished in the following kinds of ways. We create incentives for retained earnings used for productive improvements, making this a favorable disbursement of equity earnings over distribution. The next most favored category is the immediate (same year) reinvestment of distributed equity earnings in government securities or primary issues of stock for which the proceeds of the stock-issue sale are used for productive improvements. The benefit for reinvested distributed income must be greater than for corporate and partnership retained earnings *not applied to* productive improvements.

The consequence of such tax policies is to concentrate newly created investable wealth into either direct productive improvements or in U.S. Treasury or National Bank bonds which, in turn, nourish the participating private bank's lendable reserves. By the participating relationship between private commercial banks and federal agencies, federal institutions' limited participation for purposes such as exports and productive improvements provides a flow of cheap credit to productive and related purposes, and creates a floating, higher cost of borrowings outside those domains identified as consistent with national interest.

Effects on Labor Policy

Such *two-tier* approaches to fiscal and credit policies of government create a disincentive for labor-intensive forms of employment. Thus, corporate and partnership interest adapts itself to fostering development of the labor force. The corporate perception of self-interest is shaped by such incentives into precise conformity with national interest.

The included consequence and advantage of this approach is that a far greater portion of national purpose is accomplished under the influence of incentives outside the direct intervention of federal, state and local government, while federal government becomes both stronger, more efficient — and smaller — than present parameters prescribe. The more citizens' self-government is built into fiscal and credit policies, the more we gain from the benefits of the individual intelligences of citizens, and the less we require the often muddled draconian interventions of government bureaucrats.

Consider the illustrative case of computer technology. With the advent of minicomputer technologies, an executive can carry in his pocket, for a few hundred dollars, more computer power than could be purchased in office equipment costing thousands of dollars a decade ago. The poor old slide rule this author used to carry back during the 1960s is now a museum piece.

Once we overcome carried-forward misguided thinking which simply duplicates manual accounting operations and so forth on computer systems, the computer properly used enables us to slash administrative labor, freeing large sections of the educated labor force for skilled and semiskilled productive employment. If we study the trends in absolute numbers of productive operatives since 1953, and study these absolute figures as percentiles of the total labor force, we see at once the nature of the cancer of "structural decay" in the composition of the labor force, away from production and toward "services," is the reason our cities and other elements of the economy are in decay, and why basic services, such as essential medical services, are secularly skyrocketing in ratio to mean household incomes.

One well-designed package of fiscal and credit incentives will cause the desired result to occur as if automatically.

By emphasizing tangible productive improvements in the design and management of fiscal and credit incentives (and disincentives) corporate interest will automatically adapt itself to the effect of producing an accelerating shift away from unproductive forms of "services" into basic "structural changes" in the composition of our labor force. An increasing ratio of the population will be producing useful, tangible wealth, and rising mean levels of technologically mediated social productivities. A thousand bureaucratic bills passed by Congress will only scratch the surface of this problem. One well-designed package of fiscal and credit incentives will cause the desired result to occur as if automatically.

Summary

The preceding outline serves to indicate the thrust of the policies which must be adopted as guiding policies now. We must mobilize a constituency for these policies as a political alliance of industry, labor and minorities, or what we term in shorthand as a "labor-industry" alliance.

This also serves implicitly, but efficiently, to expose the absurdity of what is being offered by the Brookings Institution, by the dominant forces of the Trilateral Commission, as well as by such lunatics as Blumenthal, Miller, Kissinger, Califano, et al. All the currently popular "curves" are worse than buncombe; they are the outlines of a commitment to national and global disaster.