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Presidency 1980

LaRouche addresses the National Economists Club

In last week's issue, EIR delivered excerpts to its readers of Republican John Connally's recent policy statement on economic and political questions. This week, we present the views of another presidential candidate, Lyndon LaRouche, who seeks the Democratic nomination.

On Nov. 5, Mr. LaRouche addressed the monthly meeting of the National Economics Club in Washington, D.C. The effect of Mr. LaRouche's presentation was characterized as "electric." His remarks centered upon the "Riemannian" computer model he and his associates have developed to accurately forecast the effects of different policy options on the national and world economy, in particular, forecasting the results of current Federal Reserve policy. Mr. LaRouche employed the aid of several charts to make his points; we have included some for the reader's clarity.

In as simplified a form as the subject itself admits, I will speak on our evaluations, and our opposition to the measures recently taken by the recently-appointed Federal Reserve Chairman, Paul Adolph Volcker.

Some time ago my staff, headed by Dr. Uwe Parpart who is here today, applied to economic analysis a method of forecasting which I have developed for computer application. This was a difficult job to do in one sense, because the Riemannian physics involved is little understood among most people, particularly computer specialists, and therefore, the task of putting my economic forecasting and analytical methods on a computer did require a very highly specialized type of team. Ordinary students couldn't have done it.

The first test of what we did was to build up the data base in the computer from 1966 to 1973 and to test the model by applying as factors the oil price increase of 1973-74, plus the actions taken by former Federal Reserve Chairman Burns. We obtained a fairly perfect correspondence, which is better than anything we've been able to get with any type of input-output or forecasting tool.

We used the same method with some subsequent improvements to analyze the Volcker measures' effects. I requested and have received three specific analyses. Number one, we ran the Volcker effects—just the monetary aspect or the credit tightening aspects—for the economy as a whole. Next, we ran the combination of the Volcker measures plus the effects of a $30 a barrel oil price—which is the price the City of London is now campaigning rather vigorously for. Thirdly, I requested what we call a "spectral" analysis of the economy, dividing the U.S. economy into 26 sectors and playing these effects against the economy in terms of the 26 sectors.

First run projections

Our first run projected—on the basis of the Volcker measures alone—a 15 percent recession in the meat and bone of the U.S. economy during early 1980.

The second factor, the $30 a barrel oil price, also on the economy as a whole (not considering the division into 26 subsectors), indicated about a 30 percent recession for the economy as a whole in terms of meat and bone during 1980.

We then ran the 26-sector analysis and found that the most acute points were, of course, the automobile industry and construction. There are some others pretty badly hit but automobile and construction are the heaviest hit areas by both of these measures.

At the point we had completed this, we received information from all of the board rooms of the automobile companies and found that they, in terms of their bit-by-bit evaluation of the effects of this process, had come up in the auto sector with exactly the same results we had come up with in the computer run—which means 300,000 layoffs in the auto industry by the first

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Composition of U.S. Labor Force

(in thousands)

	Total	Agric.*	Manuf.	Construc.	Mining	Trans.	Non-Prod.†
1944	50,814	8,950	17,328	1,108	892	3,829	18,707
1953	56,463	6,621	17,549	2,659	866	4,290	24,838
1965	65,125	4,361	18,062	3,232	632	4,036	34,803
1973	80,242	3,452	20,154	3,889	642	4,656	47,241
1979	91,859	3,857	20,757	4,371	913	4,918	57,043

* includes forestry and fishing

† wholesale, retail trade; all gov't., finance, insurance, real estate.

Source: Dept. of Labor, Agriculture

of the year. It means a similar catastrophe, of course, in construction.

Once the upstream effects are felt in the vendor industries such as steel, rubber, glass and so forth, we are into the kind of recession which takes us off the charts; that is, a shock in the order of magnitude of 30 percent of meat-and-bone, delivered to this highly unstable and vulnerable economy over a period of several months, producing incalculable results. No one knows or could possibly know what the bottom is. It might level off at 30, 35, or 40 percent. You can't be sure of that. But that is enough of a blow to send a shockwave through the economy and cause the whole thing to collapse.

Volcker measures unnecessary

This is a different method from the GNP method as such. We use the GNP statistic of course, with great regret but with little alternative; nonetheless, we do not accept the essential fictions of GNP as a measurement of national economic growth.

I'm opposed to Volcker's measures, not only because they're going to cause these awful things to happen to the economy, but because such measures are totally unnecessary. It represents an act of suicide, an economic suicide taken purely for ideological reasons, the ideological reasons being the refusal to accept the kind of alternatives I propose, that the government of France proposes, that the leading forces of the European Monetary System have proposed.

Two things are central. The ideologues in Volcker's group refuse to accept the return to a gold-based monetary system, that is, the remonetization of gold. This would not occur on the old Versailles-Bretton Woods basis, but would be a monetization of gold on the basis of its competititve market value as a monetary commodity, about $375 an ounce, which is a fair market value for monetary gold right now—not to the credit of Adam Smith, but it just happens to work out that way.

The second measure that has to be taken is what is called the "dirigist" approach nowadays, or what some of the British call a "neomercantilist" approach to organizing the world market and to shaping policies within nations. We must return in this country to a modern form or modern extension of the policies associated with the first George Washington administration, the policies of Alexander Hamilton, the policies of the French circle around Lazard Carnot, Dupin and so forth. We must return to the policies of Mathew Carey, Franklin's collaborator and the continuer of Hamiltonian economics, to the policies of his son, Henry C. Carey, Lincoln's economic advisor, and to the policies of that great American citizen and founder of the German Customs Union, Friedrich List....

Causes of inflation

There are two causes for inflation. One we can call structural or cost inflation. There are three things involved. Let us first analyze the labor force as a whole and abstract from the labor force as a whole that portion of the labor force which is employed as operatives in agriculture, manufacturing, mining, construction, and transportation. Now, while transportation doesn't produce tangible wealth, it does act as the conveyor belt for the economy taken as a whole. Therefore, we should consider the transportation operative as an operative in the same way that we consider the person that operates, constructs and mans conveyor belts and so forth in factories.

If we examine this percentile of the labor force we note an alarming decline in the percentile of such operatives as a proportion of the total labor force during the post-war period.

We remember the great days of the early 1960s when we began hearing about the great and glorious

wonder of a post-industrial society and a shift to services, away from manufacturing.

This is a problem not merely because the combination of waste, administration and services has increased in the economy, but because the increase in administration and services is not offset by a rise in the rate of productivity.

National income vs. national wealth

Here's the crucial point at which I differ in even the simplest terms from the GNP philosophy. The national income accounting does not represent national wealth, and I shall emphasize that with a few demonstrations today.

National wealth is represented by the output of operatives of agriculture, manufacturing, mining, construction, transportation and so forth. The rest of it, discarding waste, is overhead at best. It is the operating burden, the indirect cost of producing the wealth of society. But our present national income accounting, naively, or axiomatically, asserts that if we had gambling casinos, if we had legalization of prostitution, legalization of drug traffic—legalization of sin generally—as a source of value added, our GNP will be reported as increased. Our national product will be recorded as increased even though our product is decreasing. That's the fallacy.

Therefore, our analysis starts first with the analysis of the composition of the labor force, treating waste and administration and services as indirect costs, or overhead burden, not as increments of value. These are indirect costs which are paid for out of the gross profit of the economy which is generated by the production associated with operatives.

The second thing is the degree of capital intensity in employment of operatives. If capital intensity is sufficient, if we have mediated advanced technology into production, this advanced technology, mediated both through education and culture and capital equipment, becomes the means by which we increase the productive powers of labor. This results in an ability not only to increase the standard of living of labor but also, above that, to produce a higher rate of gross profit as well as an absolute gross profit.

Thus we can analyze these factors, capital intensity, obsolescence per productive operative, and compare the gross profit produced by this process with the overhead costs such as waste administration and services. The growth of deterioration, obsolescence, lack of technological mediation in the capital intensive investment per operative, lack of growth of the tangible good sector in

U.S. Economy: The Effects of Volcker's Credit Policy

Transportation

these terms, and an excessive fostering of the proportion of the labor force represented by waste, including unemployment, and administration services, is the basic cause of long-term structural inflation.

This is not however the kind of inflation we deal with at this time. We are presently dealing with monetary inflation which in terms of its causal factors has nothing to do with the underlying structural inflation. We have to cure the structural inflation, but the monetary inflation is the problem that is hitting us first.

The principal factor in monetary inflation is debt. ... The rate of inflation is directly tied to the debt ratio and the liquidity problem in the economy. The monetary problem, of course, was set into motion in two steps by two presidents who refused to bite the bullet. One was President Johnson in November of 1967.

As you know, the British government undertook the long delayed and long overdue devaluation of the pound sterling. This was manipulated in effect to cause a chain reaction against the U.S. dollar. We had a run against the U.S. dollar in January and February of 1968 which sent Mr. McChesney Martin, then the Fed chairman, over to Switzerland to meet with Bank of International Settlements people. He came out on the steps and announced that the bankers had resolved that all was well. The following week, the dollar collapsed, the markets were shut down on Thursday, and there was a hasty meeting in Washington on the theme that all was not well. What followed was the first phase of the demonetization of the U.S. dollar.

Then after Mr. Nixon had gotten into bed, so to speak, with Milton Friedman at the start of his administration—the economy was put into a type of Schachtian-modeled disaster. The political effects of that disaster were typified by the Penn Central collapse; the Chrysler financial corporation collapse, and a few other warning signs in 1970. These caused Mr. Nixon to undergo a sudden abrupt change and become a born-again Keynesian.

This had predictable effects. In 1971, by March, the Federal Republic of Germany was obliged to upvalue the deutschemark. That didn't stop the rush. In the middle of August, John Connally went into the oval office and had a conversation with President Nixon which ran approximately thus: The British are trying to wreck the U.S. dollar. John Connally (being a great patriot, forgive me) said let's surrender. He said let us steal the program of Representative Henry Reuss. Reuss will have to support it. And so Paul Volcker (then in the Treasury), John Connally, and Henry Reuss effectively turned the U.S. dollar into Federal Reserve cigar-coupon money. We now have an accumulation of cigar-coupon money called dollars on the books overseas, Eurodollars, aggregating into the order of magnitude of one trillion dollars substantially controlled by the London and West Indies banks....

To get out of the mess, we must establish a low interest rate internationally. The way to do that is very simple. Our allies in the Dresdner Bank, acting on behalf of Arab as well as European principals, are engaged in financial warfare in the gold market against the City of London and Zurich. You saw recently a gigantic movement in gold prices because, like two poker players, the City of London forces on one side and the Dresdner Bank acting as the principal for a group of investors on the other side, were engaged in a struggle to see who had the power to seize control of the world's gold—and the Dresdner Bank won. It is now sitting on more than $60 billion worth of the world's gold assets, either in its own account or as nominee for others whose interest is backing it.

This gold, according to my proposal, and I think with the agreement of many of my friends in France and some of them in West Germany, is to be used as a monetary reserve for the issuance of gold-denominated bonds at 2 to 3 percent coupon. These bonds must be rediscountable in a new monetary system and will be sold, in exchange, primarily for dollars and some other currency, to central banks, to large commercial banks, and to the portfolio accounts of certain manufacturing firms which have large dollar holdings. Thus, we soak up a large mass of these dollars, put them in a central repository and issue this credit reserve on a restricted basis, a "dirigist" basis for the sound development projects in the developing sector, agriculture, industry and infrastructure, and to promote exports and production-for-exports among the industrialized countries. In short, we could bring back money to the Export-Import Bank, bring it back to the country banks, back into the firm or farmer which is producing for export or for export-related activities for purposes of providing both operating capital and investment capital at rates of between five and six percent. This is what we must do.

If we take that course or we take a course of action in that direction, we end the monetary inflation. What we must do is dry out those markets—financial flows—which contribute the most to purely monetary activity and which contribute the most to inflation. We must not collapse these markets. We should not collapse the real estate market. I admit it's insane, it's much too high, you should never reach these values. But you cannot collapse it without wiping out thrift institutions, without destroying the structure of our banking system.

Therefore, we have to have a tight policy toward the secondary market in real estate, but we must not be so tight that we collapse it. We must instead channel the flow of credit, through national monetary policy and through changes in fiscal and tax policies, to insure that the flows are going into export-related areas primarily, and as a fall off, into the other tangible goods-producing sectors of our internal economy.