EIR Economics

Asset liquidation wave fuels collapse of U.S. economy

by Chris White

While the national press has been allotting scare story headlines to the latest collapse of privately insured savings and loan institutions in the state of Maryland, a potentially yet more ominous pattern has begun to surface nationwide, portending almost certain disaster, if present governing economic policies are not reversed.

A wave of asset liquidation, spreading through the country's basic industries, has begun to hit. In all cases, tangible assets, including plant and equipment, and real estate holdings, are being sold off to meet the bloated demands of debt-service payment.

This national pattern has so far surfaced in the case of the oil and gas industry, in the steel industry, in textiles and textile machinery, in fertilizer production, and in meat packing. It is combined with a new round of austerity layoffs now hitting the airlines and the automobile industry.

The asset liquidation, and austerity-impelled further reduction in the nation's shrunken economic base, combined with panic-engendering nationwide bank failures, a resurgent crisis over international indebtedness and the dollar, and efforts to drive the oil price down, threaten to set off the chain-reaction process leading into full-blown economic collapse.

LaRouche warned

The crisis now unfolding, from the collapse of the Ohio savings and loan institutions in March, and the concomitant coordinated, if brief, run against the dollar, was predicted by economist Lyndon H. LaRouche, Jr., during his Labor Day televised address to U.S. citizens, during last year's election campaign. At that time, LaRouche warned of the danger of the eruption of a crisis, over this spring and early summer, if prevailing policies were not changed. Now, as before, LaRouche's forecast warnings are coming true.

LaRouche's forecast was updated for the latest *EIR Quarterly Economic Report*. In that location, LaRouche reported that under the condition the policies associated with Jimmy Carter and Paul Volcker were continued, there are two options, and only two, that would be available. On the one hand, a classic 1931-style depression collapse, as the usurious speculative bubble associated with Paul Volcker's financial policy, burst. On the other hand, a hyperinflationary blowout, resulting from the printing of more paper, Weimar Germany-style, to cover over emerging illiquidity crises.

LaRouche further warned that efforts to avoid a hyperinflationary blowout would fuel the impulses tending toward a deflationary collapse, and also the reverse, that efforts to avoid a deflationary collapse would fuel the momentum behind the hyperinflationary alternative.

Now, it is happening. Preston Martin, and his friends on the Federal Reserve Board of Governors, have been lobbying for, and acting to increase the paper flow in the economy. Their efforts are reflected in the further, more than $8 billion increase in consumer credit in the month of March, bringing the total outstanding consumer installment credit up almost to the range of $500 billion, more than the nation's manufacturing workers' total wage bill. The reduction in internal interest rates, led off by Manufacturers Hanover Bank, with the approval of the Fed, is also part of this pattern.

Though Volcker recently reported that he "was in the

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middle," on the question of hyperinflation versus deflation, he has repeatedly made it known, since the eruption of the Ibero-American debt crisis in August of 1982, that he would "float the banking system into the sunset on a sea of liquidity," rather than let the banking system succumb to collapse.

Meanwhile, the debt-bloated sectors that still represent the productive economy, are under the deflationary pressure to liquidate assets in order to pay their outstanding debt obligations.

With more and more paper, chasing fewer and fewer tangible assets, the process Volcker and his friends at the International Monetary Fund have set into motion, will soon tend to transform itself into a self-feeding collapse.

The liquidation pattern

The liquidation pattern is typified by developments in the oil and gas industry, and also in steel. Atlantic Richfield led the way for the energy sector, when, at the end of April, the company announced that it was divesting itself of its Eastern refining and related operations, and shifting in entirety to the West Coast. Phillips Petroleum, from headquarters in Bartlesville, Oklahoma, then announced plans to sell off assets, and offer early retirement to 10% of the company's workforce. Assets to be sold include oil fields in California, fertilizer, chemical, and natural gas plants in North Dakota, coal facilities in Britain, the corporate office building in Denver, and real-estate holdings in the Houston area. Texaco has also announced plans to sell off its non-oil operations.

Meanwhile, in the Texas and Louisiana Gulf Coast area there is a spreading wave of bankruptcy liquidations of oil and gas industry companies, and their equipment suppliers.

The Phillips case typifies the pattern. The company had run up a debt bill of approximately $14 billion fighting off two successive takeover bids over the past year. The assets offered for sale amount to nearly $2 billion, roughly the cost of service and amortization of the debt.

A similar pattern has hit the steel industry, with Wheeling-Pittsburgh filing for Chapter 11 protection under bankruptcy law, and Inland Steel and Hannah Mining, selling off iron ore and related assets in order to cover their debt bill.

Pundit Robert Crandall, steel expert for the Democrats at the Brookings Institution, stated on the April 16 edition of the televised McNeil-Lehrer Report: "Well, that's one of the fallacies of the current policy prescriptions for the steel industry, namely, that they must reinvest large amounts of money in order to become efficient. The equipment that they have to buy is so expensive that they can't afford to amortize and operate it after they invest in it. . . . The larger older companies are going to have to shrink by somewhere between 40-50% by the end of the century."

Under the recipe he considers "successful," the U.S. steel industry would be reduced in scale to that of a power of the third class, less in capacity than West Germany.

Equally radical measures have been proposed for the nation's railroad systems, now convulsed by mergers, as in the case of Union Trunk and Canadian National, or takeovers, as in the case of Conrail, or doubts about continued federal funding, as in the case of Amtrak. On April 29, David Stockman testified to the sub-committee on Surface Transportation of the Senate Committee on Commerce, Science and Transportation: "There are few programs that I can think of," he said, "that rank lower than Amtrak in terms of the good they do, the purpose they serve, and the national need they respond to. If we don't have the courage, the foresight, the comprehension of our problem, that is sufficient enough to get rid of Amtrak, I don't think we're going to shave much off the budget at all."

National bankruptcy reorganization

Under this kind of policy thinking, this year may be the last for the United States, as we have known it. The reality fueling the liquidation wave, is that the United States must pay service and amortization charges on nearly $7 trillion worth of debt this year. The amount due, nominally, has been estimated at about $2 trillion, or $500 billion every three months, more than the country produces in a year.

The pump priming by the Fed, the liquidation of assets by productive industry, are both fueled by the effort to keep this apparently sacrosanct debt bubble afloat. It cannot be done. The level of usury required to maintain, even the pretense, that the identified amount of debt is being serviced as required, will break the back of the national economy, and nation.

This result may be joyously awaited, by Marshal Ogarkov, Mikhail Gorbachov, and the KGB's North America expert, Georgii Arbatov, who already consider the United States a second-rate power, that has doomed itself to virtual extinction by the folly permitted, and tolerated, in its economic policy.

The nation, and its monetary system, thanks in large part to Paul Volcker personally, and his friends at the International Monetary Fund, is technically bankrupt. Like any bankrupt corporation, there will have to be a bankruptcy reorganization. The question is, on whose terms will that bankruptcy reorganization take place?

Volcker, acting with and on behalf of the financial institutions represented by the International Monetary Fund, has made it clear, that he intends the Federal Reserve to emerge as the de facto ruling power of a reorganized United States, as the instrument for the policy of a combination of foreign central and money-center banks.

Nations, including especially the United States, have powers available to their executive agencies, which are far broader than those pertaining to even the largest of individual corporations. Judicious use of those powers, under conditions of the emerging, deepening crisis, can provide an alternative, before the chain reaction, portended by the emerging liquidation crisis, fully hits.