U.S. debt bomb spurs economy toward depression

by Christopher R. White

Now, apparently, the United States Federal Reserve believes there is a big problem looming because of the growth of public and private debt in the United States over the last three years.

That was the message Federal Reserve Board chairman Paul A. Volcker took to Capitol Hill during his last visit to those precincts during the week of April 21. He reported that the rapid growth of debt over the last three years is without historical precedent "except in highly disturbed economic circumstances—depressions, wars, or major inflations."

By the end of last year, according to the Fed's figures, outstanding U.S. debt had reached a staggering $8.5 trillion, an increase of over $1 trillion on the year before, and actually the fastest growing part of the U.S. economy. Over the last three years, indebtedness has been growing at double-digit annual rates. The reported growth in U.S. public and private debt over the last year, is itself larger than the debt principal of Ibero-American nations.

Contrary to Volcker, the accelerating growth in U.S public and private debt is actually the main motor force behind the worsening descent into depression. This was shown in a recent *EIR* study which took apart the government's Gross National Product accounts to look at how financial transactions correlate with developments in the physical economy as such. Gross National Product accounting claims to account for all financial transactions occurring in the economy, and therefore includes interest payments.

Interest = 13% of GNP

Over the period Volcker addressed before Congress, that is, from 1979 to 1984, interest claims on the U.S. economy grew from $233 billion to $478 billion. By 1984, the usurious claims of interest accounted for nearly 13% of the transactions recorded in the Commerce Department's Gross National Product accounts. The federal government is responsible for about one-quarter of the total.

Over the same period, claims of interest began to outstrip net investment in plant, equipment, and materials for the economy as a whole. In 1979, $234 billion was so invested, against the $233 billion paid in interest. By 1984, $306.9 billion was so invested against the $478 billion claimed in interest.

By comparison, back in the early 1960s, the total claim of interest was less than one-tenth of what it is today, approximately $32 billion in 1963, or just over 5.4% of the gross national product as a whole.

Assuming that, on the basis of equity, interest payments ought to be sufficient to cover administrative expenses incurred in extending credit, and that interest ought not to be levied on interest, then a rate of 3% would be appropriate. On that scale, there is approximately $400 billion being taken out of the economy in usurious interest charges.

The growth in the claims of interest is the second fastest growing component of the GNP accounts. The fastest growing is federal and state government transfer payments for unemployment benefits or income maintenance, rising from $2.1 billion in 1963 to $96.6 billion in 1984. Back in 1963, such payments were a minuscule one-fortieth of the productive sector's wage bill; by 1984, they were just under one-third of the same.

If the claims of interest, and the unemployed, happen to be the fastest growing components of the national accounts, that is pretty strong evidence that the indications of reality, against the recovery mongers, are correct. The United States is in fact in a depression. Therefore there is nothing unprecedented about the growth of debt, as Volcker asserted. It may

be on a bigger scale, but it's exactly what happened during the 1920s and 1930s, with exactly the same effects.

It is also the case that Volcker did more than any other single individual to bring the situation about. The acceleration in the total claims of usury, and in the claims of the unemployed, took place after 1979, when Jimmy Carter appointed him chairman of the Board of Governors of the Federal Reserve.

Tax breaks for usury

Then, in 1981 and 1982, after two years of Volcker's high interest rates increased the total claims of interest by 50%, it was Volcker and Donald Regan, then secretary of the treasury, who set in motion the tax changes which helped make the spiraling growth of such usury self-propagating. Thanks to tax-break structures, the federal government made it cheaper for individuals and corporations to build up accumulations of debt than accumulations of equity. Interest, after all, is tax deductible—earnings from equity are not.

The *Wall Street Journal* covered Volcker's remarks, reporting that "the Fed's concern isn't so much with debt's recent advance, but with its inevitable retreat. The market will eventually shrink an excessive debt burden, but the process may be unpleasant." Economist Albert Wojnilower of the Drug Lobby's First Boston Corporation was quoted: "If you have to reduce the burden of debt in a hurry, there are two ways. One is through inflation. That's what we did in the 1970s and early 1980s. The other way is through widespread default and liquidation."

That was the choice *EIR*'s Lyndon LaRouche warned the Fed was facing more than a year ago. At that point, he reported that efforts to avoid the hyperinflationary variant would feed deflationary collapse impulses, and the reverse. And the combination of the two would feed the ongoing depression spiral, foredooming the financial system to ultimate collapse.

But it is now a year later. Volcker has been pumping money into the credit system to stave off deflationary collapse. And, on the other hand, the last months' collapse in the price of crude oil has taken the deflationary impetus of the spiral beyond the point of no return.

No more time to be bought

As before, in the period since 1967 when the Bretton Woods monetary system began to unravel, Volcker and company tried to buy time to preserve their bankrupt system, and forestall the inevitable consequences of their own policies. Now, it's too late. Even in the financial domain, the apparent choice Wojnilower presents, between inflation and deflation, is no longer a choice, because there is no longer a difference between the consequences of either option.

As has been seen before, pumping credit into a bankrupt financial and banking system to keep it afloat depreciates the nominal assets of that system. There comes a point when the holders of the assets determine that they will lose more by keeping their paper where it is than they will by pulling out, especially if they pull out before everybody else.

It could be avoided, by measures to counteract the deflationary momentum following from the oil-price collapse, such as the adoption of the emergency oil-parity tariff LaRouche has proposed. Such a measure would in fact buy time for the financial system, as a by-product of its principal function, the protection of domestic, and hemispheric production capabilities, for national security reasons. Volcker, however, opposes such measures, as do the ideologues in the administration. They, therefore, for their different reasons, are actually encouraging the development of the deflationary flight out of $8.5 trillion dollars of bad paper.

Tokyo: the last Bretton Woods summit?

This provides good reason to believe that this year's ritual economic summit of the seven heads of state of the leading developed economies in Tokyo, will probably be the last to convene under the financial and economic arrangements that have been in force since their first such meeting back in 1975. These summits have only functioned to reaffirm the policies of buying time for the self-destruction of the Bretton Woods system, through such means as have accumulated $8.5 trillion worth of debt on the back of the U.S. economy. In so doing, they have subjected Third World nations to policies of mass murder in effect, and plunged the "advanced" world into a new depression, led by the United States.

By the time of next year's such summit, either new, equitable financial arrangements will be in effect, which will have ended the depression from which the world is suffering, and wiped out the unsupportable burden of usury on the world economy, or Volcker's debt bubble will have collapsed itself.