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Editorial

Fiscal policy and the Constitution

As the U.S. government undergoes a probable vast house-cleaning around the Iran-gate affair, it is not too early in the process to anticipate that enough rotten apples will be gotten out to permit some desperately needed policy changes in Washington. It is part of the responsibility of *EIR*, very much in the center of the Iran-gate house-cleaning, that we specify precisely what area of policy must be dramatically changed, and precisely what new policy must be instituted.

There will be no United States in short order unless some dramatic change is made in fiscal, monetary, and economic policies.

The reality of an accelerating collapse of our nation's production of basic physical goods has overtaken what is becoming more widely recognized as a purely mythical 1983-85 "economic upsurge." Agriculture, manufacturing, and energy industries are collapsing capacity at an accelerating rate; even the much admired growth of the fast-food industry seems to be ending. Some say that 15 of our 50 states are currently in depression-like conditions; others estimate that as high as 31 should be included as economically depressed.

The Congress has recently enacted a tax-reform bill which eliminates much of the incentive for technology-intensive, capital-intensive investment of retained earnings and savings into reversing a disastrous fall in average levels of U.S. productivity. Congress must reconsider taxation policies in the light of the need to stimulate a genuine economic recovery in those sectors which produce our nation's physical wealth.

In this area of policy-shaping and law, all of us who have sworn an oath to uphold our federal Constitution are bound chiefly by two features of that Constitution. First, we are bound by those famous words from the Preamble:

"To . . . establish Justice, insure domestic Tranquility, provide for the common defence, promote the General Welfare, and secure the Blessings of Liberty to ourselves and our posterity."

We are also constrained in these matters by relevant stipulations provided in Article I, the provisions of Section 8 most emphatically.

The cause of the federal deficit, as no one in Washington seems to grasp, was Paul Volcker, whose 1979 measures increased borrowing costs for the federal government, and everyone else, thus simultaneously contracting the government's revenue base. That means that even the lunatic Gramm-Rudman bill could never close the deficit, but, in fact, only increase it by accelerating the revenue-base collapse while preserving rising debt service commitments. Anyone who says otherwise is a liar.

The tax-revenue base of federal, state, and local government has been collapsing, per capita, more rapidly than inflation-adjusted levels of governmental budgets have been reduced. The problem is not that government is spending too much. The tax-revenue base per capita is declining.

The central concern in the making of government policy ought to be, to foster accelerating growth in the tax-revenue base of federal, state, and local governments. This increase cannot occur without a shift in emphasis to promoting growth of employment in technologically progressive capital-intensive forms of production of physical goods.

Our entrepreneurial farms and industries are private institutions, but their well-being and stability is our vital national interest. Government, for its part, must provide the basic economic infrastructure on which agriculture, industry, and distribution—the tax-revenue base—depend; the system of technologically progressive entrepreneurship is the rock on which our economy's health, and the well-being of citizens, absolutely depends.

The present slide into a new, terrible depression, ought to inform all reflective, sane minds, that we have guided ourselves by wrong monetary, fiscal, and economic policies, increasingly over the past 20 years. Let us recognize that error, and correct it, before it is too late to do so.

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