

# EIR Special Report

## The end of an era: It's time for LaRouche's remedies

by Chris White

*The speeches that make up this Special Report were delivered at the semi-annual conference of the Schiller Institute and International Caucus of Labor Committees in Vienna, Virginia on Sept. 3.*

It is now just over a year since Lyndon H. LaRouche, Jr. published his Ninth Forecast on the economy [*EIR*, June 24, 1994]. Entitled, "The Coming Disintegration of Financial Markets," his report documented for all, the why's and wherefore's of the economic collapse that is now in progress.

In the course of this panel, we will retrace some of this ground, to show what kind of collapse is in progress and some of its principal features.

We are going to be discussing two kinds of processes, economic and monetary. The purpose of doing this is to highlight the absurdities of those who still insist, contrary to LaRouche, that there is no systemic crisis, no crisis that cannot be handled by resort to the traditional so-called administrative means. We will show, over the course of the panel, how, if only for consistency's sake, such people ought to be using their shoes for headgear, for they are surely not using their heads for any reason the Creator intended.

This is highlighted by the first two charts. In **Figure 1**, we see a view of the profit or loss of the U.S. economy, by selected intervals since 1960. Note that prior to 1967, the U.S. economy operated at a profit; further, that since 1967, losses have been piling up, year by year. I will elaborate on how this profile was assembled. Now compare this to **Figure 2**, the prices paid for materials and supplies and wages for manufacturing, agriculture, mining, construction, transportation, and services. This is the kind of consideration which goes into the calculation of so-called Gross National Product (GNP). The bar chart in Figure 1 goes one way, while the one in Figure 2 goes in the opposite direction. Both cannot be right. The second, what is paid for materials and supplies, ought not to be taken as a measure of economic performance at all. After all, it is only measuring the

FIGURE 1

### Surplus or loss in the U.S. economy

(tons, with reference to 1967 standard market basket of goods)

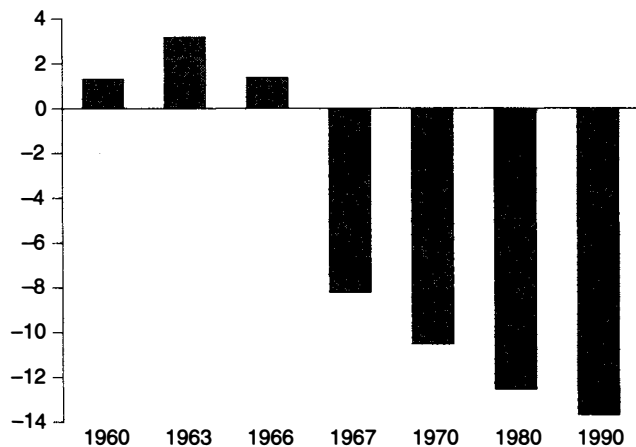
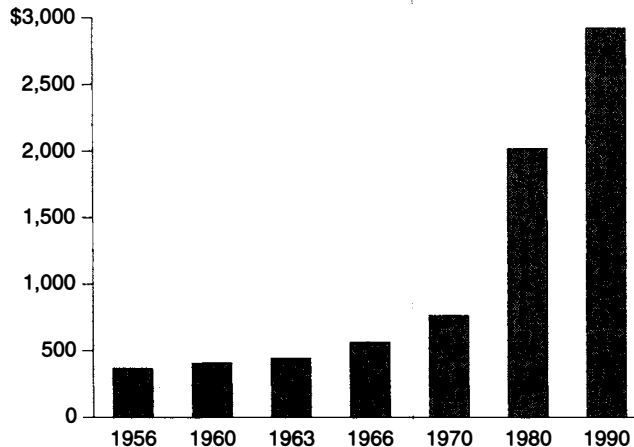


FIGURE 2

### Price of inputs

(billions \$)



increase of prices, but it is so taken, as it was this past week, when the revised GNP numbers for the latest period were released.

It ought not to be surprising that those who so take it, end up behaving like people who don't know the difference between their heads and their feet. Their view of the world is upside down. What they determine to do will have the opposite effect to what they intend.

The first summary chart on "surplus or loss" is calculated by comparing the performance of the physical economy against a standard market basket of goods, using the consumption patterns of 1967 as the basis for the comparison. It is the net result of comparing what we are capable of producing, with what we ought to be consuming, if our standard of living were comparable to what it was a mere generation ago. **Figure 3** shows this another way, showing the loss, by year, as a percent of that 1967 requirement.

Let such a sketch disabuse us of some other silly ideas. Look, first there wasn't any loss. Then, boom, there was. And, look at the subsequent generation-long slide. Take the dates. We're beginning here in 1960, the year JFK became President on a platform of reversing the "Eisenhower Recession" and rebuilding the country's strength. Remember, what became known as the Eisenhower Recession was the subject of LaRouche's first forecast, issued in late 1956. The Kennedy platform gave us growth, briefly. Kennedy was killed in November 1963. And then, between 1963 and 1967, as Kennedy's policies were reversed, what happened? The bottom fell out, setting a pattern which has continued to the present.

Go back again to late 1960, when LaRouche put out his second forecast, a warning of increasing monetary turbulence, building toward a monetary-system-shattering crisis

by later in the decade of the 1960s. The sterling and dollar crises of 1966-67 marked the fulfillment of his second forecast and the beginning of what he subsequently called, post-industrial drift, or the slide into collapse. And there's the drift, or the slide. Yes, for sure, the compression of data employed does iron out the bumps in the road. Only, though, to make the broader point, the road has been, and is, downhill.

Take all the so-called recession-recovery cycles we've had since the late 1960s, what has been their net effect? Nothing. Nothing done has changed the drift.

Why not? is what should be asked. In retrospect, the years between 1963 and 1967 also mark something else. Because, between the assassination of President Kennedy, and say, the "Summer of Love" of 1967, something changed. The whole world was changed. Without, even now, setting out to reverse, thoroughly and completely, the changes introduced during those brief three years, nothing useful is going to get done, anywhere on the face of this Earth.

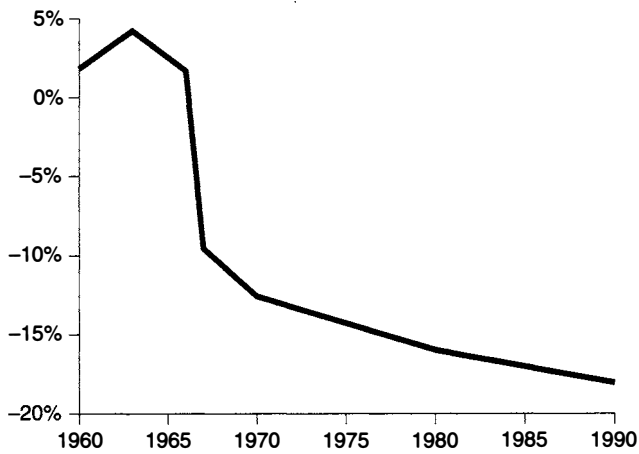
For example, if you want to do something about the economy, anywhere, forget about the momentary stuff, the so-called latest developments, in all their tremendous portent. Hey, don't you know? Where've you been? You're just looking at the results of things that were set into motion a generation or so ago. You didn't know that? Well, what do you think you're going to accomplish then? You don't even know what kind of world you are living in. You don't happen to be one of those people who buy their hats in a shoe store, do you?

Thanks to what Kennedy did, the economy was growing again. What did that growth represent? Principles embodied in western culture since the Golden Florentine Renaissance.

FIGURE 3

**Loss by year**

(percent of 1967 requirement)



Principles which made western culture uniquely different than any of its predecessors. Principles based on the idea that man, made in the image of his Creator, is absolutely superior to any other species, for reasons reflected in the growth of the population potential of the human species, or more recently, in the growth of human civilization on the shores of this continent. Two hundred years ago, there were 4 million or so newly free Americans, living under their new Constitution. More than four out of every five of them were involved in farming, of one sort or another. Two hundred years later, we've fewer farmers in absolute terms than at the beginning of the country's existence. But, each is now feeding more than 100 of his fellow human beings. That transformation typifies the kind of transformation in the existence of mankind as a whole which the makers and institutionalizers of the fifteenth-century Renaissance made possible. It is what the policy changes introduced between 1963 and 1967 were intended to reverse, in favor of the absolute bestiality of those failed societies which preceded the Golden Renaissance.

What does all this have to do with using a standard 1967-style market basket to assess economic performance? Well, put it another way. Turn to the secret knowledge of lost civilizations. What does it take to make babies? That used to be straightforward, didn't it? And, further, what does it take to make babies into citizens who can usefully contribute to the advancement of the society that has produced them? You see, we're talking about the reproduction of human society. You won't get very far with that if you don't know how, or don't want to make babies. But, if that's where you leave it, you might just as well have not started. We're talking about a species which has the unique capability to

develop ideas which can transform the conditions of its own existence, in such a way as to increase its power to transform its existence.

That's why we're talking about a 1967 market basket standard. Not because of the U.S. standard of living. Not to demonstrate and prove that there has been a collapse in the United States, even if there has. But for this reason: If since the mid-1500s mankind has had at our command principles of knowledge which have enabled us to willfully increase our mastery over nature, if over the last 200 years, those principles were applied with increasing success, as the development of modern methods of food production attest, then why, for heaven's sake, must four-fifths of mankind continue to be excluded from such benefits? Look to the populations of India and China if you want to know the significance of such a market basket approach in historical terms. Look to the populations of India and China if you want to know what the significance of the documented reversal in U.S. economic policy since the period 1963-67 has been. If, the then-greatest economic power ever assembled on the Earth turns its back on the universal principles which made its development possible, what then becomes of the rest of the world?

So, to the meat and potatoes, so to speak. The bulk of the rest of what I will talk about concerns work we have done on assembling such a standard market basket. I'm going to present this in summary form. Let me now develop briefly what the summaries are based on. What you will see, is the third level, so to speak.

On the first of those levels, we isolated a selection of products, and activities, essential to modern life, and classified them according to whether they are consumed as household goods, or as producer goods. We then traced out the bills of materials required to produce those products, or activities. This resulted in a matrix of inputs and outputs for the economy as a whole, in which, for example, the outputs would include basic economic infrastructure, transportation, power supply, water supply, social infrastructure, hospitals and schools, products of agriculture and mines, and so forth. The inputs would include the machinery, the semi-finished products, the raw materials, the fuel and power, the labor, the share of infrastructure, required to produce such output. This boils down to a 50x50 cell matrix approximately. The inputs were then recalculated on the basis of choosing the greater of production or consumption in 1967: what would be required to produce what we consumed.

This first-level matrix was then restated. Working backwards from the final products, household goods, producer goods, we reassembled the inputs into market baskets of goods and activities required to sustain the flow into such so-called final consumption. So, now we can say, if you want to increase food consumption, here's what you are going to need to do, all the way back down the line from

FIGURE 4

**Input-output matrix for 1967**

(percentage of total)

End-use	Inputs				Total
	Final	Inter- mediate	Raw material	Infra- structure	
Producers' goods	2%	12%	3%	8%	25%
Producers' overhead	4%	4%	1%	6%	14%
Household goods	6%	7%	2%	8%	23%
Household overhead	10%	11%	3%	4%	38%
<b>Total</b>	<b>23%</b>	<b>33%</b>	<b>8%</b>	<b>6%</b>	<b>100%</b>

the supermarket shelf, where many think food is grown, to the semi-manufactures and raw materials which supply the industrial products on which modern agriculture depends. This results in a much bigger matrix.

That second-level matrix was then restated in summary form. **Figure 4** shows the result for 1967. In the left-hand rows we have our four classes of end-use: producers' goods, producers' overhead, household goods, and household overhead, which I will come back to. The column headings denote the phases of the process, from final goods back through intermediate and raw materials to infrastructure, economic and social. The cells tell us what portion of the sum of the inputs is allocated to what activity. The column total, shows us what part of the total inputs goes to households and producers and overhead. And the row total shows us what part goes to each of the phases of economic activity.

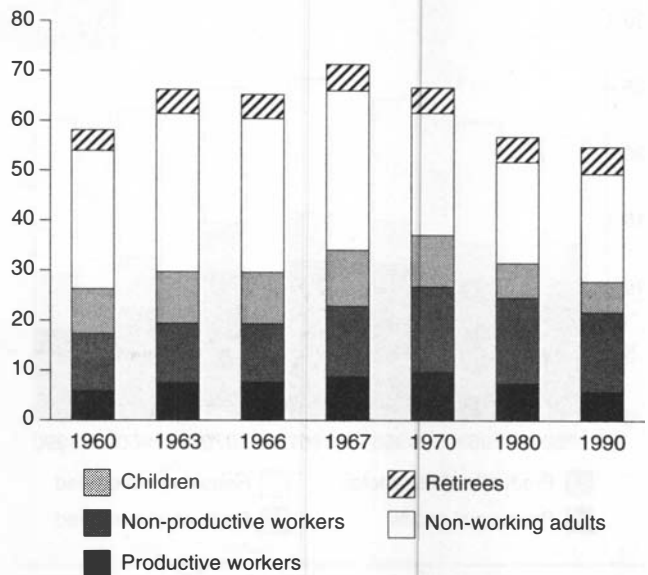
The totals have to balance, in accountant-speak, and they have to balance all the way back to the totals in the first matrix prepared. This they do in the case of our 1967 standard, to a margin of error of rather under 2%, which is to say that our calculated inputs, by product and activity, produce a result which is about 2% less than the reported consumption of those products and activities for 1967. This is about 100 million tons out of 5 billion. Or, just to point it out, the error bar is about the same magnitude as the sum of the inputs for final producer goods. So, it's rough, but ready.

So, now we can say that we know what we are dealing with. We don't have to use sophisticated tricks like, this is going down, therefore we can say the whole thing is going down. We have an estimate of the whole, and of the parts in relation to the whole, both by function, and by the way

FIGURE 5

**Distribution of per-household consumption**

(tons)



the components of the functions are produced. We can say, using this 1967 standard, if you want to produce producers' final goods by such a margin, these are the things you will have to take into account. Or if you want to increase household consumption, here is what the effect will be on the whole. We can now compare this whole with the organization of the population, by households, and by economic activity, e.g., employment.

We can do this in two ways. First, taking the magnitudes themselves, we can assort the physical components of society's economic activity among costs and expenses of reproducing the society. We're dealing with a unified reproductive cycle of population in its household consumption moment, and in its producer moment. We want to isolate what part of the total ought to go to households, by different age-group of the population, and what part is needed to sustain economic functioning itself. We want to separate out the costs of doing that in physical terms, from the associated administrative and other, e.g., sales, overhead, and from parasitism, speculation, and waste. Then we want to restate the whole, in terms of the ratios LaRouche developed which underlie his successful forecasting method, in more analytical statements about the productivity, or lack of it, of the whole economy.

In **Figure 5** we distribute the population by age-group, and by function, among the households, and allocate the total product proportionally. We see, first of all, the decline in consumption. We see the decline of the productive part of

FIGURE 6

**Distribution of market basket inputs**

(tons per capita)

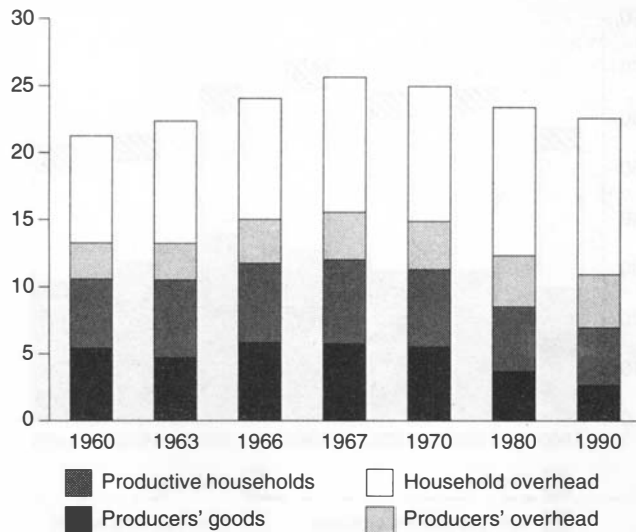
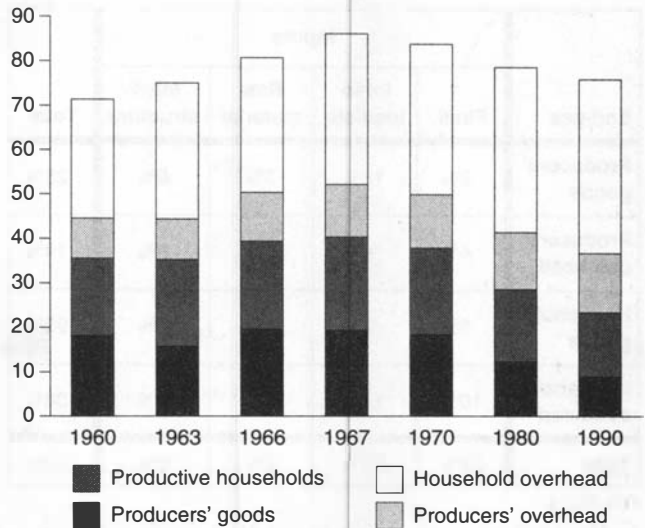


FIGURE 7

**Distribution of market basket inputs**

(tons per household)



the workforce, the increase of the non-productive workforce. The decline in non-working adults. The decline in the number of children. The increase in the aged.

They say there isn't any systemic crisis, that administrative measures alone will work. Look, if the reproduction of society, in an improved form, is the purpose, what are they talking about? How are we providing for future generations, let alone providing them with a better future?

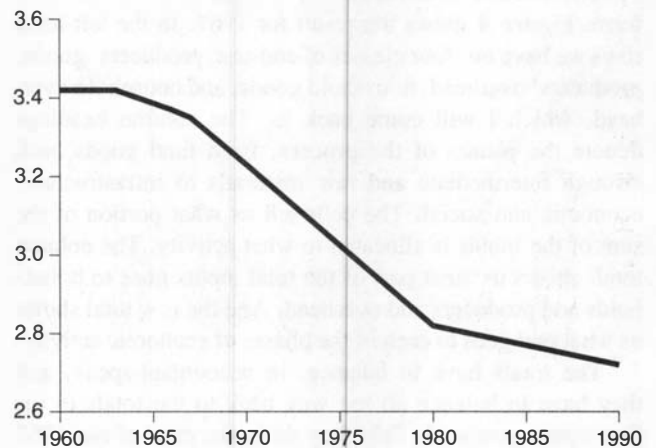
Look at this another way. In **Figure 6** we have the total product, by principal function, taken per capita. Note, number one, that the decline is less. After all, we're producing households much faster than we are the people fill them up. Note the declining portion of the total going to producers' goods and productive households. This ought to be the engine for supplying what is needed. It is shrinking faster than the whole. The same is shown per household (**Figure 7**).

But, wait a minute. The households of 1990 are not the same as the households of 1967. The workers of 1990 are not the same as the workers of 1967. Look what's happened, as shown in **Figure 8**. We've lost about a quarter of the population in the space of a generation. The losses are the children who never existed thanks to the shift that occurred between 1963 and 1967. And look at this the other way round (**Figure 9**). On a household basis, how many people depend on one worker? From over two, to just over one.

This takes us back to Gottfried Leibniz and the very beginnings of modern physical economy. The costs of employing labor are not simply the direct costs incurred as a result of the individual directly employed. The costs of

FIGURE 8

**People per household**



employing labor must include maintaining the household which produces the labor. If you don't do that, you aren't going to have any. Earlier, we did it. Now, as we converge on a dependency ratio of one to one, which will not ever be reached for obvious reasons, we've gotten clear away from that. It's something those like Newt Gingrich and company, who want to wreck Social Security, have no interest in understanding. If there is a contribution crunch coming because system recipients are going to be growing faster than contributors, hey, it's time to start thinking about not only increasing employment, but reversing the decline in

FIGURE 9

**Dependents per worker**

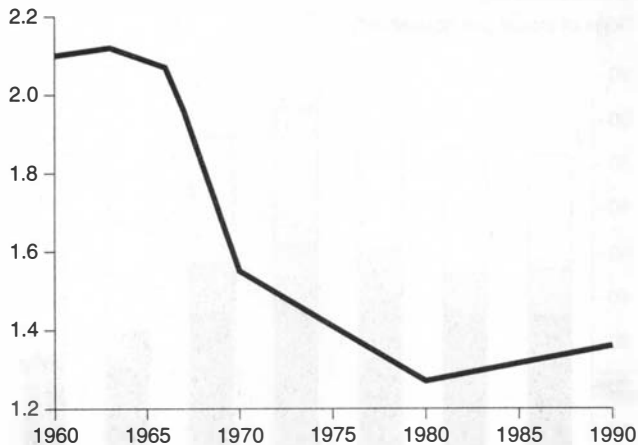


FIGURE 11

**Overhead deflator factor**

(1956=100%)

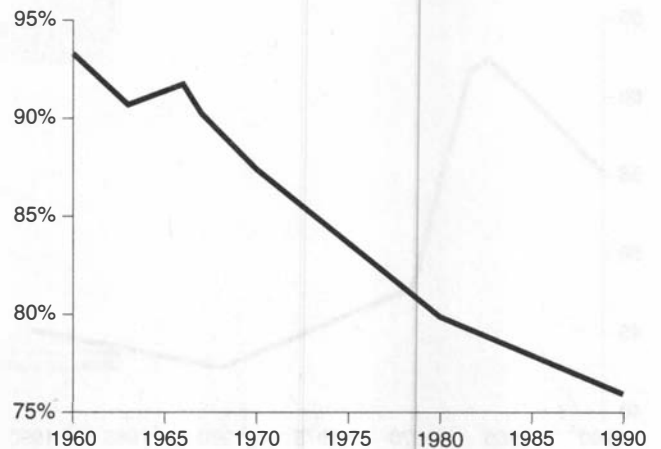


FIGURE 10

**Distribution of market basket inputs, based on 1967 household size**

(tons per 1967 household)

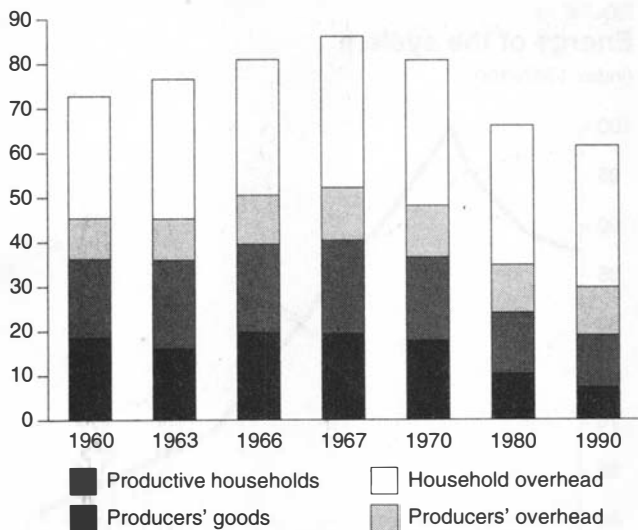
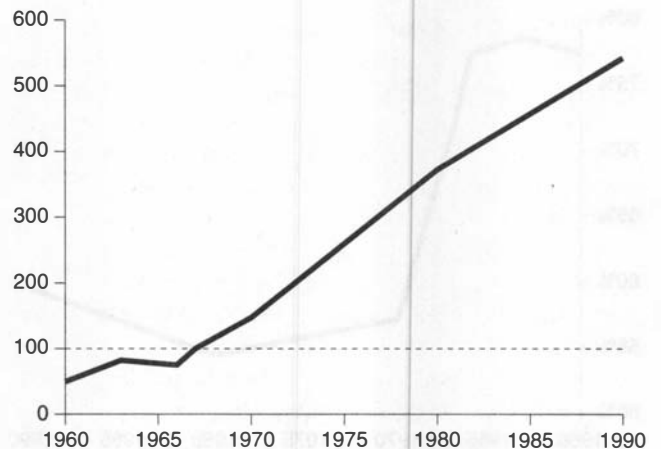


FIGURE 12

**Growth of parasitism**

(index 1967=100)

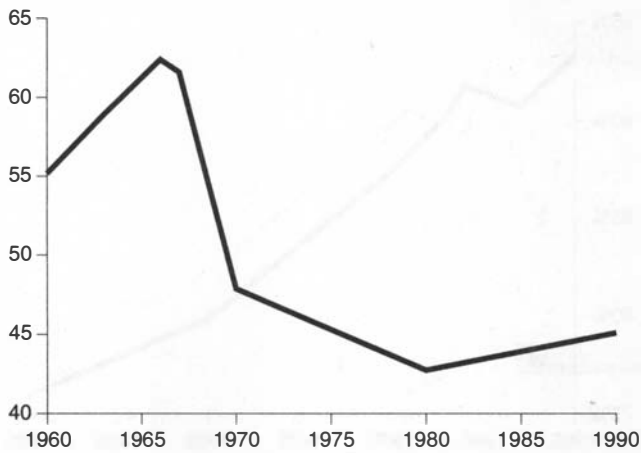


the birth rate. Away from the “me generation,” and back to basics, when people were more like people.

So, we have to restate these parameters, to make the whole consistent with 1967. And, we have to do that in such a way as to account for the missing people, and for the changed workforce. Obviously, we are going to be at least 25% down on providing for households of 1967 size. Here’s what happens (Figure 10). Let’s apply the same kind of procedure to the workforce (Figure 11). Let’s assume that there are overhead functions, administration, sales, etc.

which are necessary, but that we will confine such functions to the 56% or so of the workforce that they comprised in 1956. Growth beyond that level is unacceptable. So we can put together a “deflator,” to answer the question of what part of the transformation in employment patterns, other than the reduction of the productive workforce per se, is attributable to the effects of the post 1963-67 slide into a countercultural post-industrial society? What part of the employment represents what from an earlier period would have been called nothing but parasitism and speculation and waste? What part of the total product is thereby excluded from any reproductive function, because it just constitutes effort down the drain?

**FIGURE 13**  
**Inputs per worker**  
 (tons)



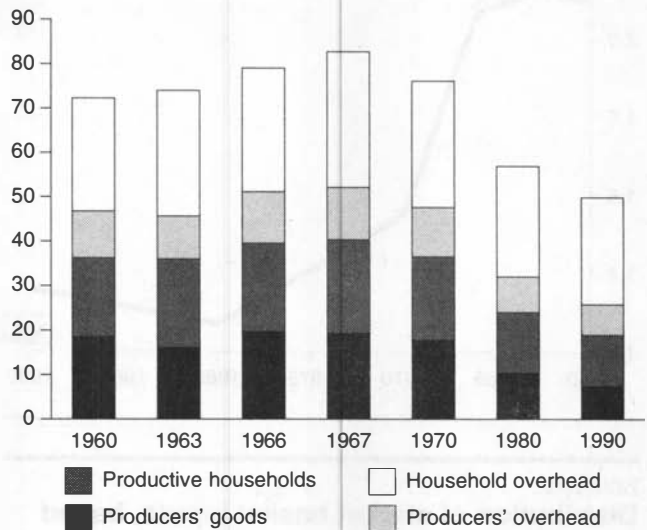
**FIGURE 14**  
**Inputs per worker, as percentage of inputs per household**



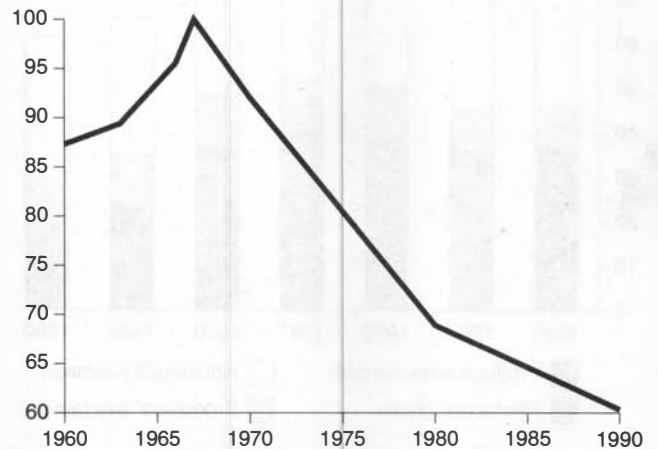
Figure 12 shows the growth of that part of the product, which by 1990 amounted to some 20% of the whole. The effects of the parasitical growth of overhead can be shown by restating the inputs in per worker terms, i.e., productive workers, plus overhead employment, without compensation.

In Figure 13 you see the first big increase in overhead employment, as the children of the baby-boom generation move into the workforce comes early on. The inputs per worker can be expressed as a percentage of the inputs per household, to reflect the declining power of the workforce to support the population (Figure 14).

**FIGURE 15**  
**Energy of the system (not including parasitism)**  
 (tons of inputs per household)



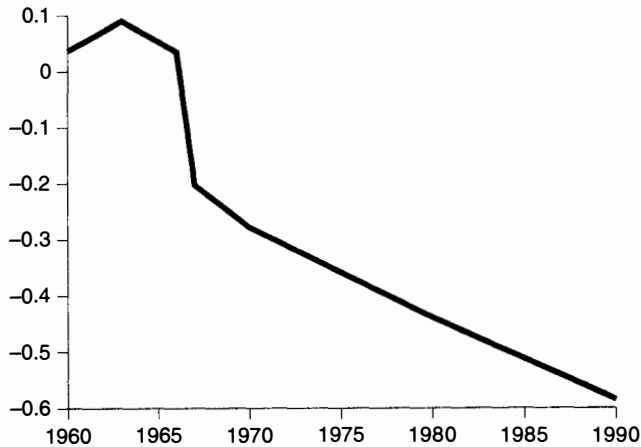
**FIGURE 16**  
**Energy of the system**  
 (index 1967=100)



Now we can restate these parameters in terms of not only quantity of goods and activities, but composition of households and workforce, to compare the functioning of that part of the economy which contributes to the reproductive purpose of the whole society. Figure 15 shows the result, by function. The whole assembly has been collapsed to about 60% of where it was a generation ago, with the productive portions, as distinct from the remaining overhead, collapsed

FIGURE 17

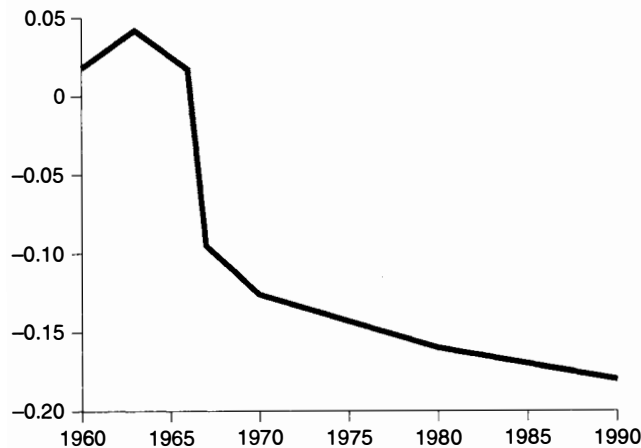
**Rate of profit of the economy (S'/C+V)\***



\* For definition of S'/C+V, see Lyndon H. LaRouche, Jr., *So, You Wish to Learn All About Economics? A Text on Elementary Mathematical Economics*, New York: New Benjamin Franklin House, 1984.

FIGURE 18

**Ratio of free energy to energy of the system (F/ES)**

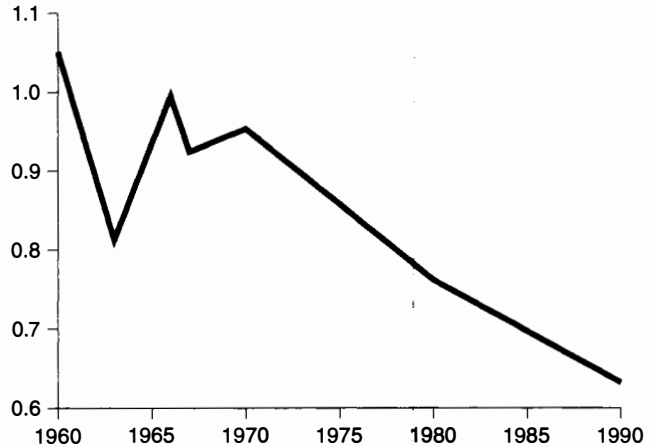


by more than 60%. The line graph of Figure 16 summarizes the overall result to emphasize the steepness of the slide.

There's one component of costs left missing: profit. We go back to the first chart of losses in Figure 1. Assume, when there was growth, in per household terms, that the growth, less the shortfall from the 1967 standard, represented the surplus available for reinvestment, subsequently, that the decline plus the shortfall from the 1967 standards represent loss. Now these parameters can be restated in terms of LaRouche's productivity ratios.

FIGURE 19

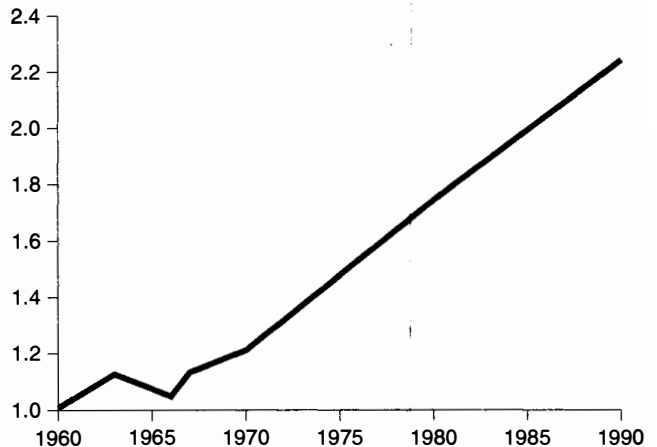
**Capital-intensity of the economy (C/V)\***



\* See note on Figure 17.

FIGURE 20

**Expense ratio of the economy (D/C+V)\***



\* See note on Figure 17.

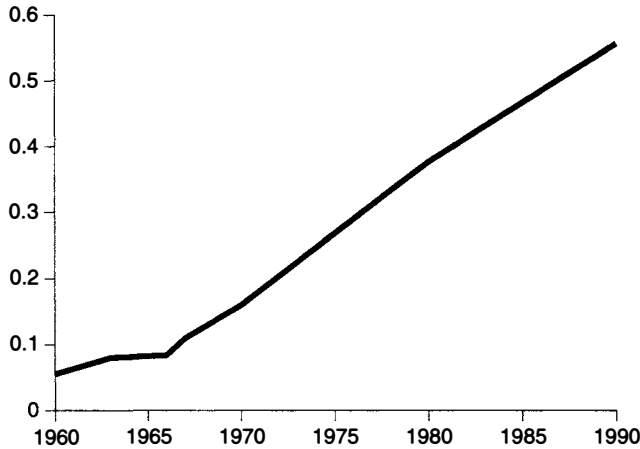
Figure 17 shows how to estimate a rate of profit for the whole economy, the ratio between the net profit, or loss, and the costs, producer and household costs, of producing the profit. Here's the transformation, and the slide again. We can restate this in terms LaRouche calls the "free energy ratio": net profit, or free energy, over costs plus necessary, i.e., deflated, overhead expense (Figure 18).

These ratios, in a healthy economy, ought to be increasing. That's what the history of mankind's existence teaches us. And they ought to increase in such a way that the market basket standard improves, in quantity and quality, while the capital intensity of production increases faster. Approximate



FIGURE 21

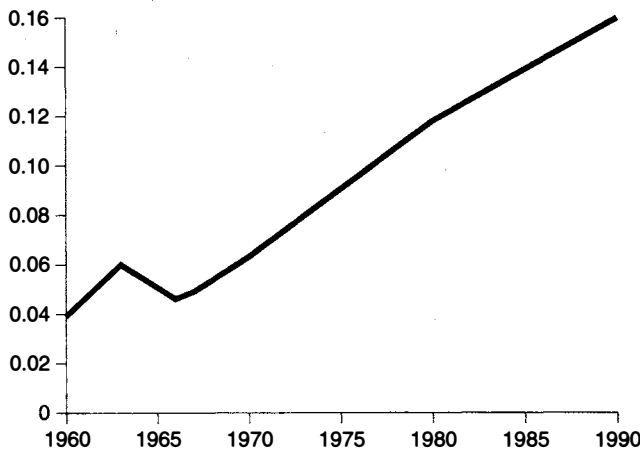
**'De-parasitized' (1956 base) energy of the system, minus rate of profit (S'/C+V)\***



\* See note on Figure 17.

FIGURE 22

**'De-parasitized' (1956 base) energy of the system, minus F/ES\***



See Figure 18.

that by taking the ratio between the inputs for producers goods, and the inputs for household goods (Figure 19).

Meanwhile, overhead expenses ought to be controlled, or brought down (Figure 20). These ratios can be restated, by subtracting from the "energy of the system" version that was stripped of countercultural parasitism (Figure 21). This is a better way, perhaps, of looking at the physical collapse, and the rate of collapse. The same procedure can be applied to the free energy ratio (Figure 22).

... That won't change until the policies which produced that

FIGURE 23

**Debt service plus taxes, compared to inputs (index 1966=100)**

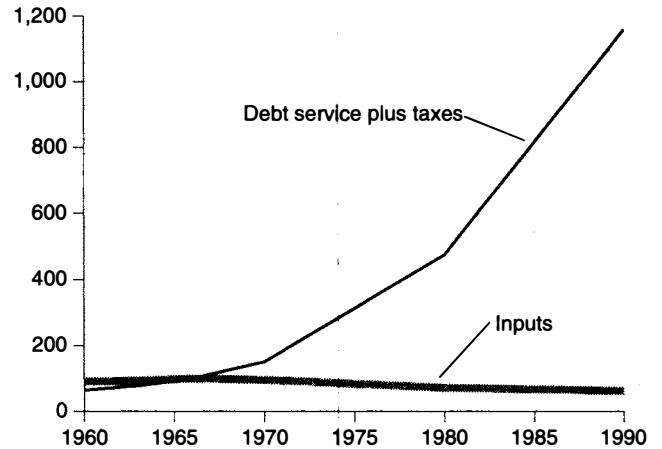
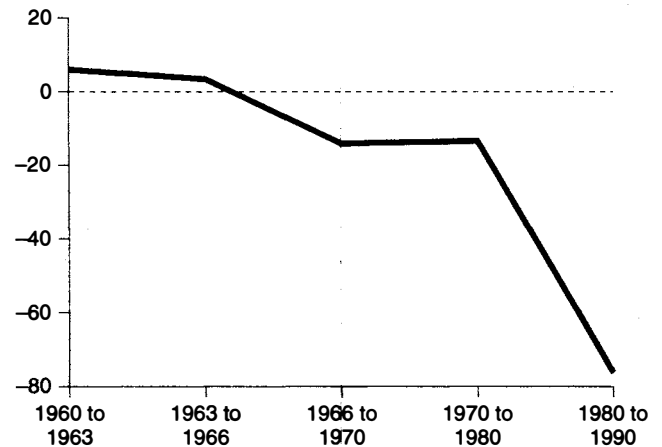


FIGURE 24

**Ratio of debt service and taxes to unit decline in energy of the system**



result are changed. That means reversing the shift engineered beginning with the assassination of John F. Kennedy.

What will change is something else. Let's say the overall drift, is a decline in the rate of profit of a bit more than 2% a year over 30 years or so, and the decline in the free energy ratio is about half that. What's happened on the monetary side of things? Well, without worrying about prices, let's simply take the growth of debt service and taxes, over the same period: 12-fold, or 1,200%—about 40% a year (Figure 23). You see, it doesn't work! Restate this in terms of the growth of debt service per unit decline in the rate of profit, as in Figure 24. This is why, as LaRouche warned a year ago, things won't be kept together.