EIR Economics

U.S. Becomes the Exporter Of Delusions of Last Resort

by Paul Gallagher

Long gone as the world's "importer of last resort," the United States is now exporting pathetic fantasies of economic recovery, to as far away as depression-wracked Japan. Today's fantasies recall the fatuous pronouncements of experts in early stages of the Great Depression—as in John Maynard Keynes' 1928 statement, "We will not have any more crashes in our time," and the Harvard Economic Society's late-1929 expectation of "recovery of business next Spring, with further improvement in the Fall." The recipients of such fantasy-exports had better look again at the actual condition of the U.S. economy.

The 2004 U.S. Presidential campaign of Lyndon LaRouche released, in the first week of April, a special report, "The Economy: At the End of a Delusion." The report shows that the breakdown which hit the American economy during late 2000 confirms LaRouche's 1995 published forecast of a "Triple Curve" typical collapse-function; and compares it to thorough studies of the 1930s Depression. LaRouche's contribution to the report makes clear that today's ongoing collapse is qualitatively more grave than that of the Great Depression, because of the past 35 years' destruction of infrastructure and industry in favor of the service and "information" economy.

The Presidential candidate's campaign is also producing an ironic-polemical videotape, lampooning Federal Reserve Board Chairman Alan Greenspan's and other authorities' dismal record of economic pronouncements during and after the 1999-2000 Presidential campaign—Treasury Secretary Paul O'Neill's May 27, 2001 statement, for example: "Right after Memorial Day, the the economy will be doing fine." LaRouche ridicules Greenspan's "expansion" declarations, as Dracula "promising the suckers a midnight rally."

Government Bankruptcies Rampant

LaRouche on April 2 pointed to the U.S. Federal government's having just exceeded its legal debt ceiling—though it may seem a secondary detail—as an indication of bankruptcy which will explode in coming months. Though easily manageable in the immediate term by the Treasury, the Federal debt-ceiling problem traces the intersection of actual budget bankruptcy, with the still more dangerous delusions of Washington public opinion about the "guaranteed recovery" and the new imperial myth of "victorious America."

Congress refused the routine legislation needed to raise the debt ceiling, because no Federal lawmaker wished to spoil the recovery party—to mention debt in the house of the bankrupt—by introducing it. Very large Federal budget deficits, and rising interest rates, loom, due to big shortfalls in tax revenues, which are also off-limits to current public discussion by elected officials. U.S. corporate profits fell by $109 billion, or 12.5%, during 2001, and manufacturing and durable goods makers' profits continued falling through the fourth quarter of the year. A recent Business Council poll of 300 CEOs of American corporations found 53% of them planning to cut capital spending still further, and 56% of them planning to cut further, or not to increase, their workforces. Total exports and imports both fell by more than 10% for the year. There are no capital gains in the market to tax. This can't be compensated for by taxes on households, which themselves got tax refunds and reductions in the Bush Administration's attempt to keep them spending.

On the level of the state governments, these tax revenue shortfalls are acknowledged, and they are approaching the astonishing level of 20% of the total Fiscal 2002 budgets of some of the biggest states, requiring huge cuts and hitting the municipalities within those states as well. The same process is eating away the Federal budget—but unmentioned by Congress or the media.

On top of the revenue shortfalls, there have been large defense- and "Homeland Defense"-related spending increases, totalling $80 billion or more since Sept. 11, 2001. This, LaRouche points out, is President George Bush's misguided parody-imitation of a "wartime recovery plan"; it, plus near-zero interest rates, account for the increases in home-mortgage and other consumer-related economic activity—the post-Sept. 11 new debt bubble. One source close to the Administration told *EIR* that bailing out the information technology and housing debt structures has been an objective of the defense spending. Employees of IT and defense-consulting firms inside the Beltway and related areas around Washington, D.C. have $60-95,000 annual incomes and half-million-dollar mortgages, which are "instant mortgage defaults" when they get laid off. In the country as a whole, mortgage-default rates have risen sharply, reaching the range of 10%, for example, in some parts of New York by March.

'Defense Recovery' Doesn't Work

The Bush Administration's "war-spending recovery" delusions don't function, because there is no machine-tool and technology advance in the economy being funded with these defense contracts. There is no new economic infrastructure being built, as in defense- and aerospace-related, true "crash projects," like the Manhattan Project or the 1960s NASA programs; just government procurement spending. *Aviation Week* on March 25 pointed out that fund managers do not even consider aerospace-defense a growth sector.

In fact, the Greenspan-Bush combination of near-zero interest rates and an $80 billion or more defense-spending "boom," resembles one of the various Japanese governments' many "stimulus packages" of recent years, none of which has had any effect on Japan's huge bad debt overhang. The same will be true of the U.S. economy, whose fundamental problem, also, is unpayable debt.

As for the much-hyped "growth" in other sectors, outside the real estate bubble, it's not to be found. The Commerce Department reported on April 2, that new orders for manufactured goods for 2002, so far, were 5% lower than the depressed first quarter of 2001; new orders in February fell slightly compared to January; and shipments of manufactured goods for January-February 2002, were 6.1% below last year's level. This occurred *despite* a huge 78% increase in defense goods orders in February over January.

A few days earlier, the Labor Department had reported that the number of American workers filing new claims for jobless benefits was rising again, reaching 394,000 in the last week of March, and a four-week average of 383,500. Also rising was the total number of workers receiving unemployment benefits. Businesses were "reluctant to hire any new workers despite the recovery," Standard and Poor's said.

Whose Recovery?

From coast to coast, men and women are to be seen lurching, cross-eyed, or bearing blank stares, after being subjected to Federal Reserve Chairman Alan Greenspan's blood-sucking promises of a miraculous midnight rebirth for almost everybody's credit-card. But, only the all-night suckers believed him.

You may encounter these suckers, roaming the streets like so many Victims of the Vampire. They may appear, like spectres, at political meetings; in encounters on the streets; or mouthing lunatic phrases on the screen of a television set. In husky shouts and meaningless murmurs, these specimens from the lurch of the living dead reveal themselves by emitting brainless hoarse cries, such as, "The recovery is here!" Or, one may simply sound a death-rattle-like, "Re . . . re . . . recover . . . ver . . . ver," as his last croaking mutter, before toppling, exhausted, into the gutter of his repose.

Another zombie-like creature lurches to the edge of the skyscraper roof. He points a mocking finger toward you, leering, as he says, "Give it up. You will only . . ." before he trips over the edge, and we hear his last word rising toward us, with Doppler effects, "f . a . . i . . . l." Don't throw the leaflet to him; he won't need it, where he's going.

You ask the preacher, pointing to the pitiful creature now descending: "Where's he going to end up?" The reverend shakes his head slowly, in reply. "Nowhere. He has sold his soul to the Anti-Destination League."

—Lyndon H. LaRouche, Jr.