Bush Waves a 'Stimulus' At an Economic Breakdown

by Richard Freeman

President George W. Bush's Jan. 7 unveiling of an absurd $674 billion "stimulus package" had two overriding qualities: its terrified refusal to face reality—the bankrupt world economic-financial is disintegrating in the biggest systemic breakdown crisis in 500 years—and its admission that the Bush economics team does not have a clue what to do about it. The Democratic Party, led by House Majority leader Nancy Pelosi (D-Calif.), grabbed headlines with its noisy criticisms of the Bush "stimulus." But the Democrats' alternative, while glancing at a few real issues, also refuses to admit the breakdown crisis, or remotely to offer a solution to it.

2004 Presidential candidate Lyndon LaRouche commented on Jan. 8, "So far, despite the general recognition that the Bush so-called 'stimulus package' is nothing but a Bush re-election-campaign blivet; despite the criticism of the blivet; the point is that none of the critics, except for the LaRouche campaign, is addressing the reality of what faces the United States and the world now. There's no reality about the nature of the financial and economic crisis; there's no reality about the relations among states as they're affected by a world-wide depression, so people are babbling, trying to take the credit for being captious critics of one another. And, they aren't saying anything!"

What the leadership of both parties have refused to acknowledge, is exemplified by the stunning fall of the U.S. dollar over the past 12 months—especially the past two. During 2002, the dollar plunged against the world's major currencies, 14%, for example, against the euro. In 2003, the fall continues, and reflecting the flight out of the dollar, the price of gold had shot up to $356 per troy ounce by Jan. 9. The dollar's collapse is due primarily to the bankruptcy of the U.S. banking and financial system. But it is not just the currency of the United States, but the currency for a majority of the world's trade and lending activities. As it plummets further, this could shatter the dollar-centered world financial system.

Against this reality, what good is a counter-cyclical "stimulus" package concocted by mental lilliputians? It is not the particular features of a stimulus package that damn it (although they are not insignificant), but rather the denial of the evident, systemic nature of the crisis, and the inability, resulting from that denial, to conceptualize a solution that would solve the crisis. The destruction of economies and populations seen across the world, will continue unabated.

On Jan. 4, LaRouche told the Internet audience of "The LaRouche Show," that what is really needed is an emergency mobilization around a global mission of rebuilding infrastructure with the most advanced technologies—one which uproots the failed policy-making processes of the past 35 years, and gets governments to put into bankruptcy the failed monetary system and the central banks, such as the U.S. Federal Reserve (see preceding article).

This is a real recovery program, the standard against which other "economic programs" must be held. On Jan. 28, LaRouche will deliver his State of the Union address, an international webcast, to develop the conception of what must be done in the United States and internationally. He will, he said, give Bush "the direction and leadership he needs, to show him what he does not know how to deal with now: how to fix this economy."

The Bush Policy

Right now, Bush needs all the help he can get. It appears that what Bush read on the teleprompter at the Chicago Economic Club on Jan. 7, was first put through a blender fed by: political operative Karl Rove, with his eye on the 2004 elections; Mont Pelerin Society-oriented monetarists, such as head of the Council of Economic Advisers, Glenn Hubbard; and whoever else was passing through the halls on the days prior to the speech. The primary problem is, indeed, the refusal to address the fundamental reality of breakdown crisis; but if the particulars of a "stimulus" are seriously flawed, they can help widen the scope of the crisis.

In its current form, it appears that the Bush stimulus package stands extraordinarily little chance of getting through the Congress. A handful of Republican Senators, and state governors of both parties, have indicated varying degrees of opposition.

At the center of the $674 billion ten-year package, is a proposal to eliminate, entirely, Federal taxation of individuals' income from stock dividends. This proposal will cost $364 billion, apparently to bring only $280 to $320 billion of benefits to taxpayers; the remainder of the cost is connected with other concerns. A determination of the distribution of these benefits was done by the Center on Budget and Policy Priorities, using the assumption that $280 billion would be distributed.

The Center's conclusion: The top 0.2% of tax filers, representing 226,000 filers, would receive $70 billion in benefits; the top 1% of tax filers (including the top 0.2%) would receive $117.6 billion in benefits; the top 5% of tax filers would receive $176.4 billion in benefits; and finally, the top 10% of tax filers, would receive $210 billion, or three-quarters of all the benefit. The lower 90%, representing 120 million tax filers, would receive $70 billion—just equal to the benefit the minuscule top 0.2% of filers would receive.

Other parts of the President's program include: an immediate increase in the amount a household can deduct, per child, from taxable income—from $600 to $1,000, which would have a ten-year cost of $87 billion; and a provision for small

FIGURE 1
U.S. Dollar Collapse Against Euro in 2002
(Dollars Per Euro)

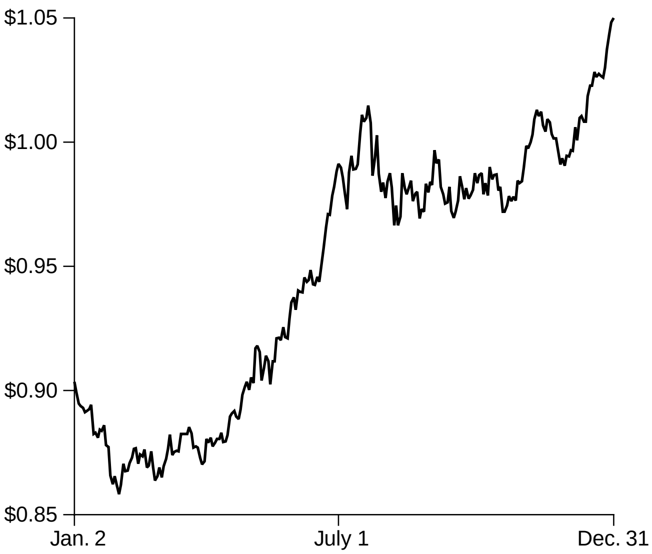
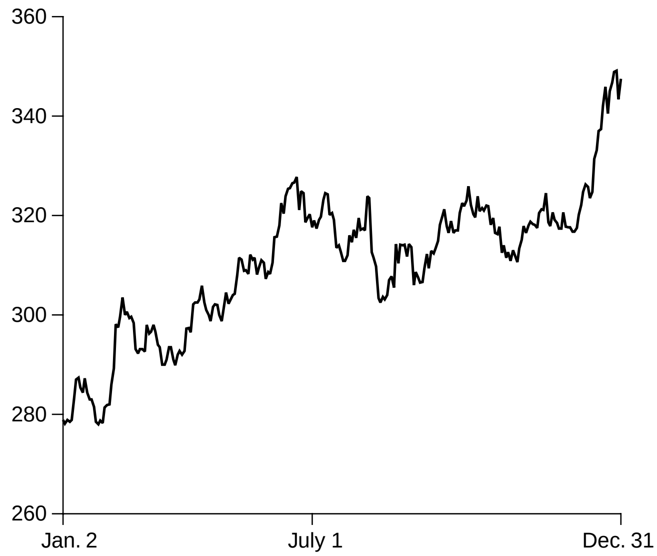


FIGURE 2
Gold Price* Surges in 2002
(Dollars/Oz.)



* price of gold on New York Commodity Exchange

businesses to write off investments in new expenses at one time, which would have a ten-year cost of $16 billion.

An additional provision, that would set up "personal re-employment accounts" for the unemployed, to help them find a job or get retraining, would spend only $3.6 billion. Were this to be spread over the current "official" 8.2 million unemployed, it would provide only $439 per unemployed American, which is about three weeks of normal unemployment benefits.

Already, as a result of the collapse of the U.S. real physical economy—and thus of tax revenues—the Fiscal Year 2003 U.S. general revenue budget could hit a deficit of an unprecedented $400 to $500 billion. The adoption of the latest stimulus package, by cutting revenues, would make the crisis of the budget worse—even if the package were bargained down to half its size in Congress—and would set the stage for ferocious budget-cutting.

Yet, the onrushing economic collapse could offer a powerful lever to kill this bill altogether.

The Breakdown Crisis

But the highly-leveraged, bankrupt world financial system, beset by increasing instabilities, is entering the final phase of disintegration. The collapse of the dollar heralds this process. **Figure 1** shows its precipitous drop between Jan. 2 and Dec. 31, 2002: from a level of 1 euro equalling 90.36¢, to 1 euro equalling $1.05, a drop of 14.0%. Likewise, during 2002, the dollar fell by 11.1% against the Japanese yen. It also fell against the Swiss franc and the British pound.

But more remarkable is the jump in the price of gold traded on the New York Commodity Exchange (**Figure 2**), from $278.90 per troy ounce on Jan. 2, 2002 to $347.60 on Dec. 31, an increase in value of 24.6%. This is the greatest yearly percentage increase in two decades. The fact that gold has broken beyond the $300 per ounce barrier, below which central banks had acted to keep it for years, indicates that something very fundamental is happening. This flight from the dollar is the result, primarily, of the bankruptcy of the U.S. financial system, especially its banks. This could collapse the already shrunken role of the "U.S. importer of last resort," upon which so many nations depended, and which depended, in turn, on an artificially strong dollar.

Meanwhile, more than 40 American states are "in the worst fiscal situation since World War II," according to the U.S. Governors Association, as tax revenues plummet. The American air and rail transportation grids are being taken apart. Two of the largest airlines went bankrupt in 2002, and in a Jan. 9 Congressional hearing, airline executives spoke of more bankruptcies in 2003. In order to avoid another ratchet-down in its productivity, America needs to rebuild and upgrade its rail grid, water system, power system, etc., through great infrastructure projects.

The fact that the collapse of every critical sector is simultaneous, and so deep, bespeaks an underlying systemic breakdown crisis. In the face of this reality, stimulus plans are effectively useless. The time for denial is over. This crisis must be tackled on a national and international level: We must "stop the fibrillation of the system," as LaRouche said, along the pathway he has recommended.