U.S. economy comes under a rentier-finance system

by Richard Freeman

Speaking at an *EIR* conference in January 1982, *EIR* founder Lyndon LaRouche stated, "The next phase of the Volcker depression will see the United States shifted from an industrial-manufacturing based economy into a rentier-financier economy." This transformation is already far advanced. If nothing is done to stop its progress, within a year or two the United States will be completely dominated by the coupon-clipping principles that governed 13th-century Venice or 19th-century Britain: wealth is defined solely as what each market instrument returns, with no regard for any underlying real economic base.

These are the grim doctrines that have dominated the United States, especially since Federal Reserve Board Chairman Paul Adolph Volcker was installed in August 1979 and began raising U.S. interest rates shortly thereafter. Especially since the early 1960s, Anglo-Venetian finance has steadily transferred assets in the United States from basic industry to finance and finance-related sectors. Now Volcker's high interest rates have slaughtered basic industry. The high rates have sharply contracted industrial production, but at the same time, they have enlarged the domain of the only activities that could exist and thrive in an environment of expensive credit: financial speculation and post-industrial "service sectors." The financial base is being cut out from under U.S. factories, mines, construction, and transportation.

Commerce Secretary Malcolm Baldrige proposed on March 30 to reconstitute the Carter administration "tripartite steel committee," consisting of unions, management, and government. The first order of business would be to "rationalize 10 to 15 percent of steel capacity" out of existence, as a Lehman Brothers analyst recently suggested. This will be the form by which American industry, which Volcker is gutting, will be put away for good.

"For the last 18 months, there has been a very noticeable shift from traditional stocks—steel, auto, rubber, and older industries—into the areas of food, restaurants, drugs, financial, energy, and the like," reported Donald Hahn, director of investment research for the Wall Street investment firm of Warburg, Paribas & Becker March 30. "I estimate the amount shifted to be $100 billion, perhaps $200 billion. Now, there will be an additional shift in the same direction over the next 12 to 18 months."

Funny-money flows

There are a number of changes that typify the changeover in the United States from industrial to rentier-finance economy.

First, the outgrowth of money-market funds from $30 billion in the summer of 1979, before Volcker entered office, to their current status of $190 billion, nearly one-third the assets of the savings and loan sector. The money-market funds are geared toward high yields; Volcker's interest rates not only created the hothouse environment in which the funds could grow, but they forced a base level of 13 to 14 percent rates, from which it will be very difficult to bring credit costs down.

There is also the growth of the International Banking Facilities (IBFs). These are largely accounting devices: a bank in New York, say Chase Manhattan, can now choose to open a second set of books, called IBF books, and transfer all the international loans it has booked onto the latter. These can now get tax benefits on its IBF-booked loan, and also has to pay no reserve requirements on the compensating deposits. This means that the loans through the IBF can be, theoretically, rolled over indefinitely, just as in the Eurodollar market. Since IBFs began functioning in January of this year, they have grown by $30 billion per month, and now stand at $96 billion in assets. This will increasingly impart to U.S. banking the character of the unregulated Euro-dollar market, while providing cheap funds for foreigners to buy up U.S. assets.

Venetian buy-out of real estate

Perhaps the biggest change that is planned is to gut the American homebuilding industry, which has been a mainstay of the American economy for the last 35 years, and make owning a home permanently unaffordable to 80 percent of the nation's population. The market will be turned into a shrunken but "high yield" market in which home mortgages pay "guaranteed rates of return, with the same regularity and ability to collect on as an industrial bond," according to one source involved in attempting to effect this transformation. The source is Blake Eagle, a Tacoma, Washington-based real-estate adviser to the nation's pension funds, and a member of the Urban Land Institute, a Washington, D.C.-based think-tank. The Urban Land Institute's advisory board is dominated by the Canadian-based real estate firms, like Cadillac Fairview and Olympia and York, and by the major insurance companies.

It was Eagle, working as an adviser for the Urban Land Institute, who along with other Urban Land Institute members wrote the recommendations of the President's Commission on Housing. President Reagan, when he addressed the National Association of Home Builders, the largest construction lobby in the nation, March 29, told his audience there would be no federal bailout of housing. "You recognize as I do," Reagan told the homebuilders, "that budget-busting bailouts will only aggravate the problem." He recommended a "free-market" solution, taken point for point from the Commission on Housing's January 1982 preliminary report.

'No God-ordained right to housing'

"The average American has to come to see that he has no God-ordained right to housing. This is the message of the President's housing address and the shakeout in the homebuilding industry," Blake Eagle said, explaining the policy changes the Commission plans to carry out. "The average American wants 2,500 square feet in his home, and a low mortgage. Well, this has to change," Eagle asserted. "The American housing industry has to downsize the size of a home, just as was done in the auto industry, if it is to survive. Home size should be downsized by 25 percent."

The amount of housing produced each year will not reach the levels achieved in the 1970s, Eagle said. The housing industry would shift from producing decent shelter to producing mortgage instruments for the portfolios of the insurance companies. "We have to make the mortgage as good as an industrial bond," Eagle continued, "That not only has a market competitive yield, but we must be able to foreclose on property if there is any holding up in payments. We need to increase the yields on mortgages to be competitive with market instruments," such as money market funds and the rate of return on consumer real estate (e.g., office buildings).

"There is right now," stated Eagle, "the common-law conception of equity in the courts, which prevents a creditor to the mortgage market from always collecting against a debtor. There has to be a change so that the concept of equity is no longer clogging up the American courts. We have to be able to foreclose more swiftly against those who default."

"We also need sweeping changes in zoning laws," Eagle said. "There are hundreds of zoning laws which are enforced by every community across the country. I don't know if a national zoning code is legal, but that's what we need. We should be able to put six homes on a lot, not the three homes we're limited to. We need to lift state usury laws that put ceilings on consumer loans, so that more can be charged for consumer-oriented loans," he added.

Eagle also proposed "share appreciation mortgages," which give the lending institution a share of the increase in the equity value of the home as a condition for making a loan. In return, the insurance companies, which had owned 21 percent of home mortgages in the 1950s, but only 3 percent in the 1980s, "will come back into home mortgage financing."

The report of the President's Commission on Housing further states: "It is likely that the thrift industry increasingly will seek to perform a mortgage banking function, originating and servicing residential mortgages, *while packaging and reselling these loans through securities markets to institutions that are better suited to hold them as investments* [emphasis added]." That is, the thrift institutions will be displaced permanently as the provider of long-term, relatively low-priced mortgages.

This "free enterprise" package will make the American dream of affordable, decent housing a thing of the past. The economy will have taken one more giant step toward domination by rentier finance.