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Why Reagan cannot balance the budget

by Richard Freeman

When Ronald Reagan ran for President in 1979, and again in early 1980 after he was elected, he produced figures showing that the U.S. budget would be in balance by the end of fiscal year 1983; in fact, it would have a surplus of $5 billion. As most people know, this won't be even remotely true. The U.S. budget deficit is churning wildly out of control. In the short run, the Reagan budget for 1983 has created a wild scramble for a limited supply of funds, and threatens to push up interest rates to 13 or 14 percent by the summer and abort the "recovery." In the long run, the Reagan budget will continue to lock the United States into a high-interest rate, depression-ridden, post-industrial economy, which will push the budget more and more out of balance.

When the President released his new budget packages for fiscal year 1983, in the course of announcing the fiscal year 1984 budget proposals, he disclosed that the 1983 budget will have a projected deficit of $207.7 billion, an off-budget deficit of an additional $17 billion, and $60 billion further in spending for federally sponsored agencies whose debt securities are backed by the moral obligations of the U.S. Treasury—a whopping total of $285 billion.

Additionally, this $285 billion doesn't count $8 billion that "former" Morgan Guaranty Trust bank board member and current U.S. Secretary of State George Shultz are urging the President hand over to International Monetary Fund. Moreover, the on-budget deficit will be held to $207.7 billion only if Gross National Product (GNP) grows at the rate the Reagan White House is predicting, 3.1 percent for the fourth quarter of 1982 to fourth-quarter 1983 in real (inflation-adjusted) terms. *EIR* estimates that real GNP—which still does not accurately measure economic activity—will grow at most by 1 to 1.5 percent in 1983; this means adding another $21 billion in lost tax revenues to the deficit. This brings the grand total of U.S. government deficit and borrowings for fiscal year 1983 to $285 billion, plus $8 billion, plus $21 billion—or $314 billion. We are a long way from the balanced budget that the Swiss-inspired "supply-side" economics hoax was supposed to produce.

In the five weeks between the middle of March and the last week of April, to supply its borrowing needs, the U.S. Treasury is planning to crash the credit markets for $40 billion in borrowings. Everybody else is trying to get money while they can, and the competition for credit has already pushed up short-term interest rates by half a percentage point over the last few weeks. A Treasury official told *EIR* on March 2, following the cut in the banks' prime lending rate from 11.0 to 10.5 percent, "We think that's the last cut in the prime rate. We expect to see it rise again soon."

That interest-rate increase—perhaps to 13 or 14 percent—would mean a jump in the Reagan administration's cost of financing Treasury debt and thus poses a giant problem for the dearly desired "economic recovery." It must be borne in mind that real interest rates today—the nominal rate of interest minus the inflation rate—are already 6 percent, and have been at or above this level since Paul Volcker took over the Federal Reserve in the fall of 1979. This real rate of interest is three to four times the previous historical level. *The U.S. has never had an economic recovery when the real rate of interest is above 1.5 percent, and 1983 will be no exception: corporations and consumers can't carry such high financing costs and still retain enough to spend freely.*

If there is to be even a minimal level of "recovery," then such sectors of the economy as auto, housing, machine tools, steel, and so forth must be able to borrow roughly $270 billion. Yet if these sectors borrow $270 billion, while the Treasury and the agencies it backs borrow $313 billion, then the total net new borrowing requirements of the public and private sector combined are no less than $583 billion, *or 40*

Figure 1

Sources and uses of U.S. Treasury funds

(Billion current U.S. dollars)

	Average third and fourth quarter 1982	1983 (estimated)
Borrowing	285.2	314.4
Funding sources		
U.S. sponsored agencies	5.5	5
Private non-financial	134.3	140
Federal Reserve	23.3	20
State and local government	57.1	20
Commercial banks	41.8	40
Households	−14.3	15
Foreign	19.1	−12
Corporations	18.5	10
Borrowing gap	0	91.4

Source: Federal Reserve Board flow of funds

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percent more funds than were borrowed during the previous highest historic level. That magnitude of funds doesn't exist. The total amount of net new savings in the economy—the major supply of funds along with foreign inflows—is estimated to be approximately $220 billion this year. The flow of foreign funds into the U.S. economy this year will perhaps add $10 to $20 billion. Thus, the total amount of new funds needed at $583 billion is more than double the projected supply of funds at $240 billion. The borrowing requirement needs of the Treasury alone would more than consume the savings in the economy.

How is the gap to be covered? Of course, past savings can be looted. This destroys the ability of banks to lend even for previously committed capital formation, i.e., for economic growth. The only other solution is for the Federal Reserve Board to print money, that is, to meet the Treasury debt with dollars printed out of the clear blue sky—a process called "monetizing the debt."

For the second half of 1982, the Federal Reserve monetized debt at a $23.3 billion rate (see **Figure 1**). But the Fed would have to print money at a $70 to $80 billion rate to finance the Treasury debt, and even that may not be enough. Such money-printing, under the current high interest rate regime, would create "wheelbarrels of cash for a loaf of bread" hyperinflation, as in Weimar Germany. The Federal Reserve Board is already advancing along that path; but Paul Volcker admitted on March 8 in congressional testimony that he may have to desist.

Thus, within the current universe, dominated by Friedmanite and Keynesian formulas, *the U.S. budget cannot be balanced.* If the Fed doesn't print new money, then Treasury debt securities, which finance the deficit, will crowd out all other borrowers from the credit market—Treasury debt is preferred by many investors because it has the highest level of guarantee—and there goes the economy. If the Fed prints like mad, the U.S. currency will be grossly debased, triggering a dollar crash and hyperinflation. (This would occur not because Treasury debt per se is inflationary, but because *past a certain magnitude,* public debt has the destructive potential cited above.) The result, as is starting to occur, is higher interest rates, among other things, and no potential for economic recovery. And without an economic recovery of even the inadequate scope Mr. Reagan is expecting, the U.S. budget deficit will get larger and larger, year by year.

Figure 2

Refuting the quackery of Milton Friedman

Year	Budget deficit (−) or surplus (+) as percent of GNP	Money supply growth	Inflation rate
1982	−4.8	8.5	3.4
1981	−2.0	6.4	8.9
1980	−2.3	6.6	12.4
1979	−0.7	7.1	13.3
1978	−1.4	8.3	9.0
1977	−2.4	8.1	6.8
1976	−3.1	6.7	4.8
1975	−4.4	4.9	7.0
1974	−0.8	4.4	12.2
1973	−0.4	5.5	8.8
1972	−1.3	9.2	3.4
1971	−2.0	6.5	3.4
1970	−0.1	5.2	5.5
1969	+0.4	3.2	6.1
1968	−0.7	7.7	4.7
1967	−1.7	6.6	3.0
1966	−0.2	2.5	3.4
1965	0	4.7	1.9
1964	−0.5	4.7	1.2
1963	0	3.7	1.6
1962	−0.7	1.8	1.2
1961	−0.7	3.2	0.7
1960	+0.5	0.7	1.5

Source: Federal Reserve Board; Department of Commerce, Bureau of Economic Analysis; Department of Labor.

Why Friedman is wrong

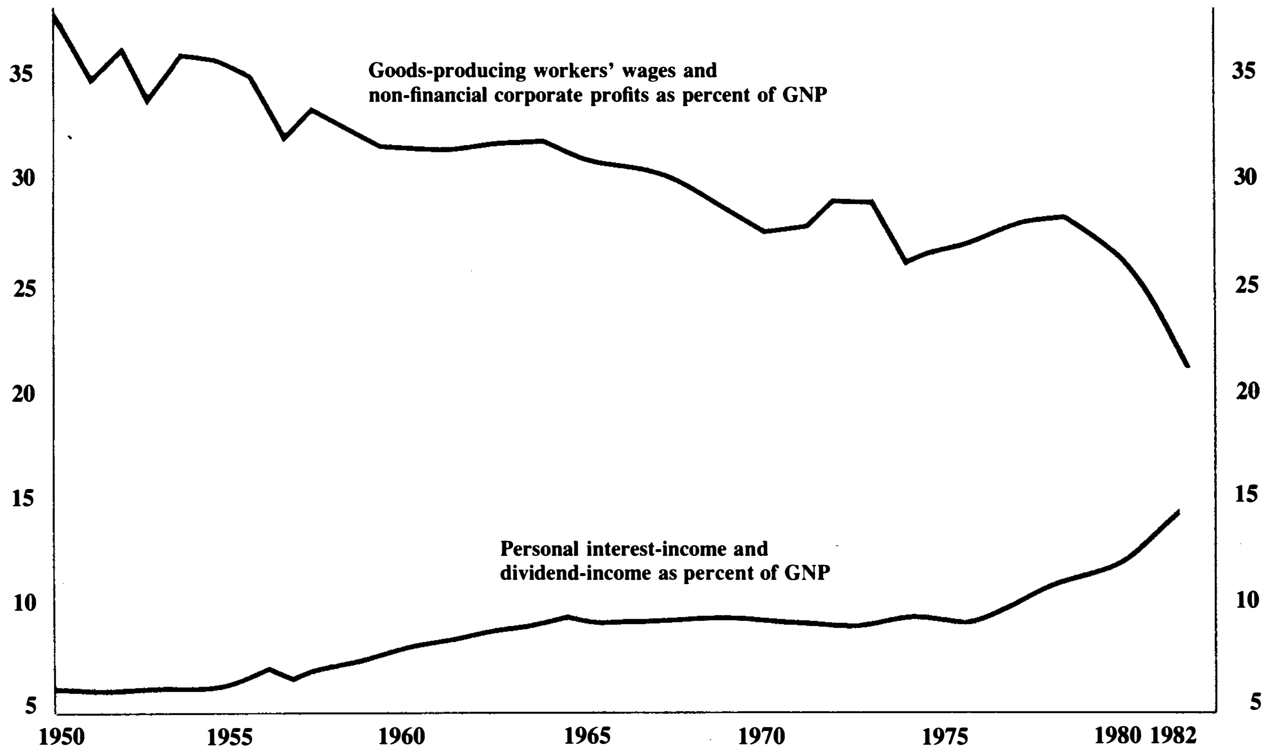
When discussing the budget, one must first discard all excess baggage, namely the outlook of monetarism or Friedmanism, or any other "ideological cultism." The cult argument asserts that: 1) the reason we have large budget deficits now is because not enough budget-cutting was done in the past; and 2) inflation is caused by budget deficits; i.e., to get rid of inflation, one must cut the budget.

Since this idea exercises such a pervasive influence on both conservatives and liberals, it is necessary to prove a preliminary point: Milton Friedman is a lying fraud.

The core of Friedman's argument, devised by the Swiss-controlled Mont Pelerin Society, is that government budget deficits must be financed by printing money (not true if there is a decent savings rate as a result of economic growth), and that printing money—the Fed "monetizing the debt"—is the biggest reason for the increase in money supply. This second point is also false. The largest creator of credit and money is the banking system, through the "multiplier": extreme monetarists, acknowledging this fact, therefore propose "100 percent reserve banking."

Let us follow Friedman's argument to the end, by means of **Figure 2.** If Friedman's claims were true, each time the deficit as a percent of GNP went up from the previous year, that would imply an increase in money supply, and that, in turn, would imply an increase in inflation. But the statistics show that the three components haven't moved in tandem at any time in the last 22 years. Friedman's theory was not borne out even once. Even luck would give a higher correlation. And when, between 1975 and 1979, the deficit as a percent of GNP declines stepwise year by year, the inflation rate explodes.

Figure 3
The domination of the Gross National Product by rentier-finance
(Percent)



Source: Department of Commerce, Bureau of Economic Analysis

So much for Friedman and his "common sense." Why his monetarist theories have so many adherents requires an explanation other than empirical validity. It is no secret why Friedman himself nevertheless upholds this theory. Friedman has publicly admitted that he is an admirer of Hjalmar Schacht, the Nazi finance minister, who instituted fierce budget-cutting austerity in Germany and destroyed the productive labor force, plant, and equipment of that nation, as well as other portions of Europe. The slave-labor death-camps, where prisoners were fed as little as possible until they were used up, was the essence of Schacht's program.

How an economy works

What caused the U.S. budget to fall so out of balance has nothing to do with a lack of budget-cutting.

A budget reflects the activity of the underlying physical economy. No spending contractions or tax increases can be effective in themselves. The only policy that will succeed is to redirect credit flows to expand the real base of the economy, thus to increase revenues.

Gross National Product and other indices explain nothing fundamental. Rather, the reader should begin from the basic understanding of an economy that is embodied in *EIR*'s LaRouche-Riemann economic model. The model hardly has to be introduced to people knowledgeable in economics: it is the only economic model, government or private, to have accurately predicted the behavior of the U.S. economy over the past 13 quarters.

The model begins by examining the total product of an economy. The portion that pays for the maintenance of the skill and cultural levels of the *productive* labor force is designated V, or variable capital. That portion which pays for the maintenance of the equipotential of plant and equipment is designated C, or constant capital. What remains of the total product after deducting C and V is S, or the relative surplus of the economy. This too can be divided into two parts: d, the overhead expense, which includes both necessary overhead expenses—doctors, engineers, firemen—and also unnecessary ones, such as croupiers, most bankers, and most economists. What remains of S after d is deducted is the portion of the total product that could be reinvested to technologically upgrade the next cycle of production, or S'. The goal of an economy—and of the national budget as a subsidiary part of this overall process—is to maximize S' relative to the costs of production. This can be expressed as seeking increased second-derivative values for the ratio $S'/(C+V)$; increasing this ratio means increasing the technological level and thus the efficiency of energy flows in the physical econ-

omy, to move ahead of the eventual exhaustion of resources as defined by the current mode of production.

The overwhelming bulk of the U.S. budget deficit must be categorized as *d*. Nonetheless, much of the *d* in the budget is necessary—providing for the aged, those in need of medical benefits, and so forth. This is what any civilized society does. But the budget deficit also represents much unnecessary overhead. For example, the current real 25 percent level of U.S. unemployment is paid for by government unemployment benefits and other programs like welfare, food stamps, job training, etc. It is the growth of overhead in the economy, and therefore in the budget, which is the major problem of the U.S. budget.

The real physical base of the U.S. economy has been destroyed in favor of financing overhead. This process of destruction goes under the name of transforming the United States into a "post-industrial" heap of luxury office buildings, computer personnel, white-collar paper pushers, and Dope, Inc. enterprises. This shift was by no means necessary, nor was it guided by the "invisible hand." Rentier-financier interests, controlled by the Anglo-Swiss oligarchy's financial command centers, the *fondi,* have guided this shift, to obtain vast holdings of corporate, government, and household debt, and parasitize the U.S. industrial base, crippling its industrial, agricultural, and population growth potentials. These *fondi* dictated the decisions which moved the United States into a post-industrial universe:

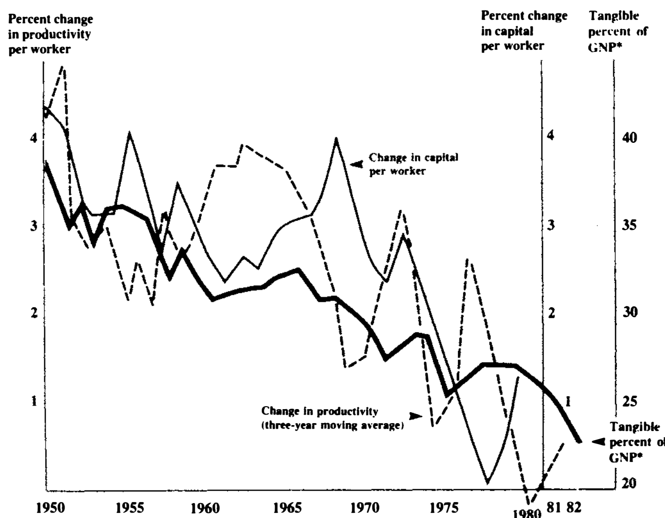
- Lyndon Johnson's "Great Society" program. Under the guidance of anglophile Treasury Secretary Henry Fowler and the Tavistock Institute, the NASA space program, which acted as a "science driver" to the U.S. economy, was drastically reduced in favor of "programs for the poor." It was decided that minorities and other "poor people" would never again be integrated into the productive industrial mainstream of the economy, but would instead constitute a permanent army of the unemployed.
- The August 1971 decision to take the U.S. off the gold standard. This allowed the Eurodollar market to become a second, offshore, unregulated U.S. banking system, operating illegally under the control of the *fondi.* Now "valued" at $1.7 trillion, the Euromarket is the major cause of double digit inflation. Also, as the dollar has increasingly become a speculative instrument, U.S. producers have increasingly come to depend on foreign manufactures produced below the cost of production. Since 1979, the United States has run a manufacturing trade deficit.
- The Henry Kissinger-engineered 1973 Middle East war, which delivered the first oil shock. Kissinger was operating under the direction of the British Foreign Office, as he admitted in a May 10, 1982 speech in London. The oil shock brought U.S. unemployment to 7.5 percent, caused a 10 percent drop in industrial production, and softened up the U.S. economy for future shocks.
- The British Petroleum Company-Aspen Institute-engineered toppling of the Shah of Iran in order to launch a second oil shock.
- The October 1979 "interest-rate massacre" conducted by Paul Volcker, which pushed U.S. interest rates to their highest levels in 200 years. Volcker used this move to force on the U.S. economy his policy of "controlled disintegration," which imposed zero and then negative industrial growth. The policy was spelled out publicly by the Council on Foreign Relations' *Project 1980s* study, for which Volcker was a director.

Because, starting with the slash in the NASA space program, the U.S. economy lost its industrial-agricultural momentum and took on the character of a post-industrial financial supermarket, the following resulted: From a ratio in 1945 of two goods-producing workers for each non-goods producing worker in the economy, in 1979 there were two non-goods-producing workers for every goods-producing worker. By January, 1983, after three and a half years of Volcker's industrial massacre, for each goods-producing worker there were almost *three* non-goods-producing workers.

At the same time, the combined debt of U.S. corporations, farms, households, and federal, state, and local governments skyrocketed, especially after Volcker raised interest rates. From a level of $1.7 trillion in 1970, the combined U.S. debt level surged to $5.3 trillion in 1982. This debt represents another level of overhead which must be serviced, a tremendous drag on the economy.

Figure 4

America's shift to post-industrial society lowers productivity



*Tangible percent of GNP is the goods-producing workers' wages and non-financial profits as percent of GNP

Source: Department of Commerce, Bureau of Economic Analysis; Department of Labor; Council of Economic Advisers

Figure 5

The collapse in U.S. profits and taxes

(Billions of current U.S. dollars)

Year	Profits at 9 percent annual growth	Tax at 46 percent rate	Tax at 40 percent rate	Tax at 35 percent rate	Actual profits	Actual tax liability
1983.......	737.1	339.1	294.8	258.0	190.0[e]	63.7[e]
1982.......	676.3	311.1	270.5	236.7	175.4	58.8
1981.......	620.4	285.4	248.2	217.1	232.1	81.2
1980.......	569.2	261.8	227.7	199.2	242.4	84.7
1970.......	240.4	110.6	96.2	84.1	75.4	34.2
1960.......	101.6	46.7	40.6	35.6	49.8	22.7
1950.......	42.9	19.7	17.2	15.0	42.9	17.9

Source: Department of Commerce, Bureau of Economic Analysis

Let us examine those productive/overhead ratios which directly affect U.S. government revenues and expenditures. From the standpoint of Milton Friedman, John Maynard Keynes, and all GNP fetishists, there is no important distinction between interest and dividend income on the one hand, and goods-producing workers' wages and corporate profits (the real "tangible portion of GNP") on the other; both represent taxable income. But in the final analysis, only goods-producing workers' wages and corporate profits represent the fund that expands the economy and puts tax monies into the Treasury. Personal interest and dividend income—*mostly non-productive income*—are fundamentally deductions from Treasury revenues, under current tax policy. Thus the shift of the United States from goods-producing to non-productive activities, the shift into a depression-ridden post-industrial economy not only added overhead to government expenditures, but also cost it vast amounts of revenues.

This can be seen in the following way, as summarized in **Figure 3.** Between 1950 and 1982, the real tangible portion of GNP (goods-producing workers' wages and corporate profits) plunged from 37.6 percent to 22.4 percent of GNP, while the personal interest and dividend portion more than doubled from 6.5 to 14.4 percent of GNP. This shift cost the U.S. government revenues in two ways.

First, as **Figure 4** shows, the drop in "tangible portion of GNP" as a relative weight in the economy ensured that the amount of capital deployed per worker would fall. Productivity, unless one believes in Schachtian slave-labor, is a product of capital intensivity. Thus between 1977 and 1982, the U.S. productivity increase was one-fourth its level for the entire decade of the 1950s and 1960s.

The drop in productivity, along with the recurrent oil shocks and Volcker's high interest rates, cut drastically into profits, and thus tax revenues from those profits. Consider what would have happened if, since 1950, corporate profits grew steadily at a real 7 percent annual rate, and inflation grew at a 2 percent rate, so that profits in nominal terms rose at a 9 percent yearly rate? The 7 percent real corporate profit

Figure 6

What the Volcker controlled-integration policy has added to the U.S. budget deficit

(Billions of current U.S. dollars)

Fiscal year	Unemployment benefits	Interest on public debt	Lost corporate and individual tax revenues	Volcker add-on	Deficit
1979.......	9.8	42.6	0		
1980.......	16.0	52.5	21.2	32.4	59.6
1981.......	15.4	68.7	33.7	54.5	57.9
1982.......	21.2	84.7	71.9	109.8	110.6
1983.......	31.9*	89.0*	93.9	140.2	207.7*

Source: Office of Management and Budget, Commerce Department

*Reagan administration projections

growth rate is only half the level of profits that industries achieve when they are growing rapidly. The 2 percent inflation rate is very low, less than half the average rate during this period, but justified by the assumption that productivity in the industrial sector is high.

The results are shown in **Figure 5.** At this modest rate of growth of profits, U.S. profits in 1982 would have been $676.3 billion, or 3.9 times what they actually were, at $175.4 billion. The tax liability of the corporate sector would have been from $178 billion to $252 billion *greater* in 1982 than it actually was, depending on the effective tax rate. This alone would have closed the budget gap *and given the United States a surplus*. Moreover, had corporate profits grown at this rate, the Social Security fund would be perfectly sound today; and corporate Social Security tax rates could have probably been cut to half their current levels.

The growth in personal interest income—a product of the Volcker incentives to "financial services"—effected the opposite process, a loss of revenues. In 1982 personal interest income stood at $371.8 billion. If this income had been earned as goods-producers' wages, instead of interest income, the United States would have taken in $30 to $60 billion more per year in taxes at the same tax rates.

The Treasury Department calculates, according to an internal study, that 14 percent of total interest income went unreported. That is definitely an understatement, but it represents $52.1 billion. Since the effective tax rate on personal income is 30 percent, that means a loss of $15.6 billion in tax revenues—an amount larger than the entire welfare budget, or the first few years of the MX missile program.

But of course there are also many ways to "legally" avoid taxes on interest income. Establishing an account for dependents, one can deduct $3,200 of interest earned per year, for example. Most earners of interest income are in the upper income brackets, and can shelter this income by other devices. Moreover, only $110 to $125 billion, or a third of the total $371.8 billion in interest income, is earned by individuals. The rest is earned by foundations, partnerships, and trust funds, most of which are directly or indirectly controlled by the *fondi*. Foundations pay no taxes. Trust funds pay minimal taxes.

Crude GNP figures confirm the hypothesis

A second method of quantifying the devastation of the U.S. tax base through the shift towards a post-industrial economy, is to exmaine the loss of revenues by estimating the difference between the GNP growing at a certain specified rate, and what actually happened (see **Figure 6**).

Keeping the inflation level constant, one assumes that for every $1 of GNP there is 20 cents in tax revenues, a ratio that has held for the past decade. When growth comes to an end, workers are out of work, employers have reduced sales and profits, and tax revenues drop.

For the 1971 and 1979 period, calculating the gap between actual GNP and that which would have been generated at a 5 percent growth rate (a rate achieved four times during those years), the United States lost $164.4 billion. Since the total combined government deficit in this period was $269.8 billion, this means that stunted growth was responsible for *61 percent* of the entire deficit. The apparent shortfall in Social Security financing; the growth of welfare, and food stamp outlays; the strains on the defense budget, etc. were not the *cause* of this budget drain, but rather an *outcome* of the contraction of the tax base.

Starting with Volcker's October 1979 credit massacre, the United States entered a new geometry. If the Reagan administration's fiscal year 1983 federal deficit projection of $207.7 billion holds true, then the fiscal 1980 through 1983 budgets will have produced a combined budget deficit of $433.8 billion!

Of this amount, Volcker's high interest rates will have produced added expenditures and lost revenues of $336.9 billion, or *78 percent* of the total. The revenues Volcker caused to be lost, plus added expenditures for higher interest payments on the public debt and increased unemployment benefits, are almost the size of the entire U.S. outstanding government debt built up from 1787 until 1970.

This was calculated by determining the difference between what interest on the public debt would have been each year had interest rates not been raised, and what unemployment benefits would have been if unemployment stayed the same as in 1979, but payouts were adjusted upward for inflation.

Paul Volcker's "anti-inflation" program is the largest generator of the U.S. budget deficit, by an overwhelming margin, yet David Stockman, George Shultz, Tip O'Neill, and Walter Mondale are mute on this point when they draw up the list of what should be cut from the budget.

Collective suicide

It has been shown that 1) the Friedman justification for budget-cutting is based on pure fraud and 2) the shift into post-industrial society is the primary obstacle to tax cuts and budget surpluses. But some people—and the majority of congressmen as well as the Oval Office—still believe that budget-cutting is the only option to pursue.

This view was championed by the head of the Financial Studies Division of the International Monetary Fund in an interview on Feb. 9. There should have been $60 billion to $80 billion in additional cuts in the fiscal year 1983 U.S. budget, on top of the $42 billion already applied, he said, and cuts of increasing proportions should be applied in successive years. This gentleman was frank enough to concede that such a policy would perpetuate the depression, and fail to transfer funds from the government to the private sector. "If you tell me the U.S. private sector is going to have any new demand for funds, I would laugh. Industry will not be getting much in the way of new funds. There must be no new

credit in the economy."

U.S. Secretary of State George Shultz and Treasury Secretary Donald Regan, joined by Budget Director David Stockman, are nevertheless pressing for deep cuts in the fiscal year 1984 budget, cuts which the Congress will now debate. The Shultz-Regan-Stockman budget document, released by the President in February, calls for:

- freezes on federal workers' pay increases and on the spending levels of most social programs, which means cuts when adjusted for inflation;
- cuts in the benefit levels of unemployment insurance;
- a cut in farm price supports by $8 billion, and a substitution of costly, unworkable crop-exchange programs, along with cuts in the agricultural extension program;
- a proposed six-month delay in the cost-of-living escalator clause for Social Security;
- cuts in the basic military research programs for anti-ballistic missiles;
- a freeze on infrastructural programs, including dams, irrigation, and so forth.

These cuts and freezes total roughly $30 billion. The states and localities, once the pass-through of the 5-cent-per-gallon oil tax for highway construction is deducted, get almost nothing, although revenue-sharing and the "new federalism" were supposed to have increased the weight of local government.

Over the previous two fiscal years, 1982 and 1983, record-shattering $97 billion was already cut from the budget (or added on to revenues through such frauds as "user fees"), and yet these years will have the highest combined fiscal deficits of any two years in history. Now, Reagan is being told by a coalition of Democrats and Republicans that even this level of austerity is insufficient. "Slash Social Security," demands the "conservative" Heritage Foundation. "Cut defense!" demands the "liberal" Brookings Institute. "Raise taxes!" cry both sides.

If education, Social Security, and job training programs are chiseled back, the intellectual and moral fabric of an economy weakens, eventually undermining productivity. To cut those portions of the budget which represent real tangible product—infrastructure projects such as waterways, canals, ports, NASA, nuclear energy—is to sabotage those programs that provide for the future of America by increasing the efficiency of the economy. It is possible to cut irrigation projects for one year; but what are the costs when water runs out in a region?

It should be noted that if personal income stagnates, government spending on defense and on transfer payments—unemployment benefits, Social Security—is providing two of the only active sources of income which end up paying for either consumer or industrial goods. The IMF's proposal to cut the social "safety net" and defense will not only make the United States defenseless against foreign attack, but mean a further direct reduction in economic activity and loss of tax revenues. The problem of the U.S. budget is exemplified by the fact that while in fiscal year 1982, tax revenues were $618 billion, in fiscal year 1983, they are projected to be only $598 billion.

Obviously the United States cannot continue in this mode. The budget constitutes a time-bomb which threatens to be detonated by the very post-industrial strategy and budget-cutting policies which created the deficit in the first place.

The budget must be guided by the policy of Alexander Hamilton, the founder of U.S. industrial capitalism, who managed to build the economy and reduce foreign debt, while overcoming a domestic budget deficit which was as severe as anything that this country had seen until the present time. Hamilton treated the budget as a planning document for development: Hamilton asked, what internal improvements—rails, canals, waterways, ports, highways, city construction projects—could the budget facilitate in order to expand the commerce, and thus the revenue base? He knew that for every dollar spent on internal improvements in the budget, $4 or $5 could be generated, and thus healthy amounts of taxable revenues. Hamilton also saw the budget as a tool for building education and skill levels, and defending the country—as opposed to Thomas Jefferson, who under the evil influence of his Swiss-born and -controlled Treasury Secretary, Albert Gallatin, wanted to cut military outlays, in order to "balance the budget." That nearly lost the United States the War of 1812, and hence national sovereignty.

Above all, for Hamilton and other leaders like economists Henry Carey and Erasmus Peshine Smith, who devised the economic policies of the Lincoln administration, the budget was not the center of economics—as it is stupidly treated today—but rather a subordinate aspect of overall economic policy, which begins with a directed credit policy, and fosters rates of high-technology growth in agriculture and industry.

To make the budget process work, the Federal Reserve must be put under government control; Paul Volcker must be fired; and monetarism laughed out of Washington, D.C. The Treasury would be authorized to issue Lincoln style gold-backed U.S. reserve currency notes (see Economics section); the notes would be issued to the private banking system at from 2 to 4 percent interest rate, for up to half the value of a bank's loan. The banks would issue these note-issue loans by the Fed only if the banks are lending to productive goods-producing industries, that is agriculture, manufacturing, mining, construction, transportation, and utilities. To unproductive borrowers, banks can lend at the going interest rate—be it 10, 25, 80 percent.

In short, credit must once more be funneled to the productive base of the U.S. economy at preferred rates, and the non-essential, non-productive sectors of the economy compelled to bear more of the fiscal burden. This will reverse the shift towards the post-industrial society, and generate a genuine recovery.