for debt service). These imports are substituted for essential manufacturing and semi-manufacturing output the economy no longer invests in producing—permitting a level of output unmerited by the underlying physical conditions of the U.S. economy.

The graphs compare the apparent course of the U.S. economy through the first half of 1984 with the trajectory which the economy would have followed in the absence of the import subsidy. All measurements were made in constant 1972 dollars. The 1984 values are annualized from conditions existing at the end of the second quarter of 1984.

Graph 1 shows the magnitude of the subsidy which has been supporting the U.S. economy since 1982. The difference here is calculated by taking the *change* in the balance of trade between, for example, 1982 and 1983, and adding that change to the overhead. In this way, a comparison can be made between the observed course of the economy and the internal capabilities which it possessed at each point.

Graph 2 shows the course of total tangible output with and without the subsidy. The pattern of deep falls followed by temporary respites seen in 1979-81, is repeated in 1981-84 when the result of the subsidy is removed. While the rate of decline of the underlying economy appears to have slowed, the net course is still negative.

Graph 3 shows the divergence of tangible profit between the apparent and underlying trajectories. Note that the subsidy received in 1982 produces an increased tangible profit in 1983.

Graph 3A indicates the rate of change for tangible profit. Rates of decline of 6% to 7% between 1979-80 and 1981-82 would have been almost matched by the 5% drop between 1983-84 in the absence of the subsidy.

Graph 4 shows that the apparent net reinvestment in 1983 and the first part of 1984 was purely a result of the trade imbalance. In 1982, the U.S. economy itself produced barely enough tangible profit to meet the overhead requirements, and in 1983, it produced significantly too litle. The difference, experienced as net investments in the following period, was made up by the trade surplus.

Graph 5 demonstrates that the *rate* of net reinvestment would have been more negative in 1984 (-0.04) than even in 1982 (-0.02) if the trade surplus had not increased. With the rapid growth of the subsidy, the economy showed a relatively high growth potential of 0.03.

Graph 6 provides the empirical proof that the apparent growth of the economy must have come from a source such as we describe. The ratio of overhead costs to the wage bill of the productive workforce is shown to fall over a period of massive increase in service, government, and all other types of overhead costs.

The EIR *Quarterly Economic Report, entitled "The United States on the Edge of a General Breakdown Crisis," is available at $1,000, $500 to subscribers.*

Currency Rates