EIR Economics

U.S. bankruptcy: Volcker's $5 trillion debt bomb

by the EIR Economics Staff

The study presented here in summary form documents the looming bankruptcy of the United States.

What this magazine thinks about what is known euphemistically in the circles close to Donald Regan and David Stockman as "the recovery," is quite well known. It never happened. Below we demonstrate that while the much touted "recovery" was not happening, the United States was sucking the world as a whole into the vortex of a Second Great Depression. In the process, thanks primarily to Paul Volcker, and his supporters in the present administration like the cited Donald Regan and David Stockman, the United States was bankrupting itself.

Seldom do we hear it said precisely what we are supposed to be recovering from, or what exactly it is that we do not have, that we are recovering. We leave aside those who with a glazed-over expression eulogize our "economic strength," "our might," "our vitality," and mystical nominalisms of that sort.

The study summarized here analyzed four parameters over time. Those are:

1) The production of physical goods, in number, weight, or volume in the economy.

2) The per-capita productivity of the population producing those goods over the same time frame, in relation to the population as a whole, the labor force as a whole, and the goods-producers in the labor force.

3) The growth of both Gross Domestic Product as a whole, and the growth of the dollar-denominated parts of Gross Domestic Product associated with goods production.

4) The growth of indebtedness, domestic and external.

A cross-section of producers' and consumers' goods was selected from a broader data base, to reflect the dynamics of the economy as a whole. These were, production of raw steel, cement, tractors, machine-tools, automobiles, and TVs, radios and tape-recorders. In every case except for machine-tools, the high point for the actual production of these representative goods was 1972. The more extensive data sample, of hundreds of products, shows the same pattern represented here by a mere handful.

Thus, a recovery could be expected to return us, minimally, to the levels of 1972, before we actually started to improve. This has not happened.

As we shall detail, there was a slight bounce, to recover up to, but not more than half of the volume of production lost in comparison with the production numbers of 1972. But it would be ridiculous to simply compare production numbers from year to year.

To maintain comparability with 1972, the productivity of the increased population, labor force, and goods-producing part of the labor force would have to be taken into account. But 1972 per-capita productivities, for all three categories, were also the highest. From this standpoint, over the almost three years of the "recovery" to date, there has been an approximate 15% annual collapse from the levels that would have been required to maintain the real productivity levels of 1972.

This rate of collapse does not include the imports of parts which, it is estimated, make up one-third of our autos, or the imports of scrap-steel fed into electric arc furnaces to inflate our raw steel numbers, or the Case tractors, which, rolled on their backs and scratched, show Japanese writing on their undersides. Nor does it include the expanding deficit in the nation's economic infrastructure. The cited rate is simply a collapse from 1972 conditions of zero-growth in apparent productivity.

With the imports, but without the infrastructure deficit, the national economy has been collapsing at an annualized rate of about 1.5% per annum since 1972. The normal statistical economist would conclude that the primarily import-based "recovery" had merely accumulated the potential for a further 5-7.5% downward ratchet in the shrinking part of the economy which produces physical goods. If the infrastructure deficit were to be included, and the imported parts and materials removed, the accumulated collapse potential should perhaps be doubled and tripled.

Inflation

But it is worse. The "recovery," so it is claimed, "reined in," or, "brought inflation under control." How could that be the case if physical goods output and productivity is collapsing, and infrastructure is not replaced?

The oracles who make these kind of pronouncements from the depths of the administration, or the Federal Reserve, or the academic departments of universities, employ the national accounting system known as Gross National Product. The GNP system assigns a monetary value to the goods-producing and services-producing sectors of the economy. In assigning those monetary values, the economists ignore the reality that the physical costs of maintaining the economy's capacity to produce have to be covered out of physical production of wealth. And that the same productive resources must be allocated to cover economic and administrative overhead costs of production, as well as debt service. The GNP economists do not distinguish between such kinds of economic activity.

Back in 1972, the monetary value assigned to the production of the nation's agriculture, mining, manufacturing, construction activity, energy production, and transportation, was $564.1 billion. By 1984, this had grown to about $1.4 trillion, while the production therein contained was declining at an estimated 1.5% a year. The deflated 1984 figures, in 1972 dollars, would then be $474 billion.

The difference is an unabated 16% annual inflation in the dollar value of the physical goods component of GNP alone. But the total Gross Domestic Product increased during the same time frame from $1.180 trillion in 1972, to over $3 trillion in 1984. If this is deflated in the same way, the annualized inflation rate would be about 25% per annum over the 12-year period. That is, one 1972 dollar is the equivalent of $2.50 in 1984. If the accumulated infrastructure deficit is included, the annualized rate shoots up again to about 42%, to make a 1984 dollar the equivalent in purchasing power of about 20 cents in 1972. So much for the inflation busters. This does not include inflation imported in the form of "Eurodollars" from off-shore.

Thus, when 12.5% of the deflated 1984 goods-component of $474 billion of Gross National Product is wiped out, the approximately $60 billion of productive capability represented in 1972 dollar values will bring with it 300 billion 1984 dollars in a first pass.

But it is still worse. Back in 1972, the wage bill for the nation's goods-producing workers totaled, it is estimated, $196.4 billion per annum. The total grew to $430.8 billion in 1981, without keeping pace with inflation, declined in 1982, and then recovered to reach $492.3 billion in 1984. That is, in 1972 dollars, the goods-producers' wage bill had been cut in half. For 500 billion 1984 dollars are equal to 100 billion 1972 dollars. Since 1972, we have had three consumer-led recoveries which have collectively cut consumer purchasing power in half.

In 1972, the goods-producers' wage bill slightly exceeded the estimated debt-service requirements on total consumer indebtedness. Each $1.00 of the wage packet carried $0.90 of consumer debt-service. By 1976, this had reversed. By 1984, each dollar of the wage packet carried $1.58 of consumer debt-service. From 1972 to 1984, the consumer debt-service total had increased from $178 billion to $780 billion, or approximately 4.5 times—that is, almost as much as the estimated rate of inflation. Under the reduction in the dollar value of the consumers' purchasing power, the reality was that the consumer was no longer the owner, but only the borrower, of a whole class of consumer items.

Over the same time frame, thanks to Paul Volcker, the principal associated with this consumer debt-service grew from $990 billion to about $3,000 billion, according to the estimates of the International Monetary Fund. If the accumulated collapse potential were translated into jobs lost, and thus vanished debt-service capability, nearly $100 billion of debt-service, tied to $380 billion of principal, would be wiped out on the consumer side alone.

While the service requirements on consumer indebtedness alone, inside the United States, is three times the feared total of Ibero-American foreign indebtedness, and the principal about 10 times the total of the Ibero-American foreign debt, the consumer side only represents about half the total of U.S. internal indebtedness.

Thus, on the internal side of the U.S. economy alone, the potential for further collapse accumulated during the non-existent recovery can be translated into the potential for the collapse of over $1 trillion worth of paper: $300 billion associated with the collapsed physical goods-producing economy; $480 billion associated with consumer debt; and as much again from the non-consumer side of U.S. indebtedness.

The estimated $1.26 trillion 1984 dollar-value collapse potential, accumulated during the course of what Volcker and Regan call "the recovery," is about the same size in dollars as what the economists call the "real" component of Gross National Product. That is, as we saw above, the imputed dollar value of agriculture, mining, manufacturing, energy and utilities, construction, and transportation. On the internal side of the economy alone, the "recovery" has developed the potential to wipe out everything. The total Gross Domestic Product is only perhaps three times the current dollar value of what is being primed to collapse.

But, it is still worse. The economic spokesmen of the administration have taken to berating our foreign allies for their slowness in joining the U.S. "recovery." It is a spectacle almost as ridiculous as Margaret Thatcher vaunting the "strength and unity" of the Western alliance, from the top of the rubble-heap of British industry. Led by Donald Regan, they vaunt the strength of the dollar, the "best year in living memory." Those looking at the world from the inside of Volcker's bubble cannot see how silly they appear to those on the other side. Internally, they have brought us to the edge of bankruptcy. But what about the United States in the world?

It is estimated that total U.S. indebtness is $6.8 trillion, out of a total world indebtness of over $20 trillion. The balance is made up of another nearly $2 trillion from pathetic imperial Canada, another $5.5 trillion from Western Europe, and $3.7 billion from Japan. The remaining approximately $2 trillion is the portion of the thus-estimated world debt held by the so-called developing sector, that is, about 10% of the whole.

The service charges on this magnitude of debt, which, with interest and maturity included, will approximate $5.8 trillion this year, that is, about $1.45 trillion every three months, exceed the world's capacity to produce. Worldwide, every one of the 330 million or so goods-producing workers must service and retire the equivalent of an amount in excess of $15,000 worth of debt. Most of those workers earn far less than the equivalent of 1,000 U.S. dollars per annum, and do not produce anywhere near the amount required. The total is almost as much as the Bureau of Labor Statistics considers to be the average wage of a U.S. manufacturing-sector worker.

Of the total debt service and retirement, about 36% will fall to the account of the United States, in excess of $2 trillion. Of this, $500 billion has to be serviced and rolled over every quarter. That is, a paper amount in excess of the deflated total of the goods-production part of annual Gross National Product, must be rolled over and serviced every quarter.

The annual service and retirement requirement is thus four to five times the deflated dollar goods-production component of Gross National Product. That is to say that on the U.S. side alone, four-fifths of the amount required in debt service and retirement alone, another nearly 1.7 trillion paper dollars, is unmoored from the physical economy and its diminishing wealth-production capabilities. That amount, of the service and retirement alone, is unsecured.

Therefore, each deflated production dollar is supporting about $4.50 of debt service and retirement requirements. The discrepancy between the two defines the potential inflation to be unleashed as the collapse implicit in what is called the "recovery" reasserts itself. The "recovery" has accumulated the potential for Paul Volcker to move us from double to triple digit inflation.

Each of the advanced sector nations, with the exception of Japan, underwent a collapse in physical-goods production less than, but comparable to, that experienced in the United States. Some, like the Federal Republic of Germany, whose economies are oriented toward export, began to collapse later than did the United States, and have not attained such a rate of collapse as the United States has during its "recovery."

However, these countries' production and productivity did decline, with the exception of Japan, where production increased in all areas over 1972, but productivity began to decline. Like the United States, what is called their Gross Domestic Product also grew.

Where the United States increased 2.5 times, the Federal Republic of Germany increased 1.9 times, France 3.6 times, the U.K. 4.4 times, Italy 6.2 times, Japan 2.4 times. In every cited case, with the exception of Japan, the increase in the GDP numbers conceals a drop in production, and a drop in productivity, and thus betrays the untrammelled progress of killer inflation, as it did in the United States.

Similarly, the internal indebtedness of the cited countries also grew, and, as in the case of the United States, the growth of internal indebtedness exceeded the growth in the national-currency denomination of Gross Domestic Product.

Take only the consumer part of internal indebtedness. While the total tripled between 1972 and 1984 in the United States, in France it increased 4.3 times (most spectacularly since the Mitterrand government took office), in the Federal Republic 2.9 times, in Italy 5.8 times, in Japan 4.1 times.

But debt is not necessarily bad in and of itself, as long as it is incurred for productive purposes, or for overhead costs of the economy, while the economy is maintained in growth.

This is shown by the growth in Japanese production of steel, autos, tractors, and machine-tools across the entire period, even if per-capita productivities began to decline. Japan may not have been growing fast enough, but it was growing. Nowhere else was that the case. For in each case, the increase of internal indebtedness has been accompanied, in some cases from 1976, in others from 1980, by declines both in production and in the three kinds of per-capita productivity that were discussed for the United States.

Thus, with the United States and its dollar in the lead, a world debt bubble was created, and the usurious demands for service of that debt were permitted to outrun the world economy's capacity to pay. If the rest of the world had followed the United States into the "recovery," as Donald Regan has exhorted them to do, perhaps this bubble would have burst already.

Now, let us turn our attention to the so-called developing-sector nations, in particular Mexico, Brazil, and India. Here it has not yet been possible to bring the production numbers up to date. However, it is possible to assert that prior to 1982, the year what is called "the debt crisis" was being unleashed, these developing-sector nations were outperforming the decrepit advanced sector.

Though Mexico and Brazil registered higher growth than did India in the production of raw steel and cement, for example, the growth of all three has to be contrasted against the concomitant declines in the advanced sector. India is shockingly exemplary. In 1972, that country produced about 17,000 tractors against the 220,000 produced in the United States. By 1982, India was producing 68,000 while the United States was producing 67,000. India's economy was being developed to meet a national commitment to produce food for the population. This effort is matched by attempts to build up industry and infrastructure in the cited countries, and elsewhere.

If physical output alone were a criteria in these matters, the currencies of these nations would have appreciated against the dollar, and against the currencies of other advanced-sector nations, perhaps down to the present day. They were increasing the productivity of their economies, while the so-called advanced-sector nations were sliding into decline.

But while their productivity was increasing, compare what happened to their Gross Domestic Products and internal indebtedness with what we saw above in the advanced-sector nations. Of the three, India does the best, for its internal indebtedness increased seven-fold against a 3.4 times increase in the monetary GDP attribute. The debt increase here must be set against the kind of production increase we saw typified in the case of tractor production.

On the other side, Mexico's internal indebtedness increased 28 times over the period from 1972 to 1984, with a 50% increase between 1972 and 1976, a near three-fold increase between 1976 and 1980 thanks to Volcker's interest rates. It then began to triple every other year down to 1984. Over the same period, Brazil's internal indebtness increased a staggering 685 times, with the accumulated internal debt reproducing itself five-fold every other year from 1980.

These economies typify the destruction brought by the worldwide Weimar-style inflation triggered after 1978 by the Volcker debt bubble. The collapsed purchasing power of the domestic currency against the worldwide decline in production is indicative of the conditions of genocide that Volcker and his friends have spread worldwide. The cited internal credit collapses of Brazil and Mexico should be taken as an omen by those who argue that the U.S. "recovery" must be continued at any cost. For that is where the United States is headed, along with the rest of the advanced-sector nations, if the present insanity is not halted.

Our strong dollar, Donald Regan's panacea for all ills, only looks good to those who ignore the fact that it has already collapsed to one-fifth of its previous internal value. The external collapse of the dollar in terms of its purchasing power is much, much greater, for the simple reason that the United States no longer produces anything that anyone elsewhere in the world can buy, except unsecured debt.

The results of the 'recovery'

What then did happen to production and productivity during the "Great Recovery" of 1982-84?

Well, over the three years, we produced about 190 million metric tons of cement, 226 million metric tons of raw steel, 506,000 machine-tools of different types, 193,000 tractors, and about 19.6 million automobiles. The annual numbers do, in all cases except machine-tools, show an increase over 1981-82. In no case do they regain the highs of 1972.

But, as was reported above, the simple numbers, in and of themselves, are misleading. The population of the United States grew by about 20 million between 1972 and 1982, and has continued to grow thereafter. The labor force of the country has grown faster than the population as a whole, rising from 90 million or so in 1972 to 110 million in 1982, 112 million in 1983, and over 113 million in 1984. The productive goods-producing workforce has stagnated, remaining at an official, overestimated level of about 24 to 25 million, while the population as a whole, and the labor force as a whole, have grown.

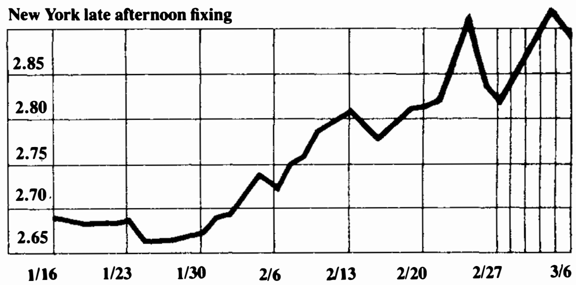
The 1972 "high" level would therefore represent the amount of growth necessary to restore the fabled "zero economic growth," except for the constraint of providing for an expanded population at that level. It would recover what was lost. It would not represent economic advance.

In cement, we produced about 76% of the needed zero-growth level, in steel only about 56%, in machine-tools about 50% of the requirement, in tractors about 26%, in automobiles about 66%. This, for the sum of the three years. If the margin for imported parts and equipment is subtracted in all categories, but especially autos and tractors, we would remain below, in terms of internal production, the levels hit when the economy bottomed out in 1982.

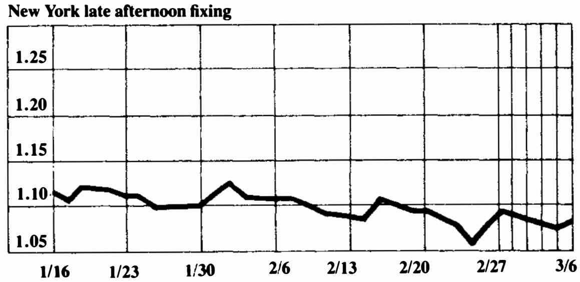
There are some who delude themselves into thinking that the "bounce back" will sustain itself. They ignore the fact that the economy is actually on a trajectory which Lyndon H. LaRouche has compared, in previously demolishing the Volcker-Regan nonsense, to "a ball bouncing down-hill." Such deluded ones should be aware that the bottom hasn't been hit yet. If their insane policy is not changed, we are facing another ratchet downwards, of about 12%, which could destabilize, internally and externally, over $2 trillion worth of unsecured paper. Is Paul Volcker worth it?

Currency Rates

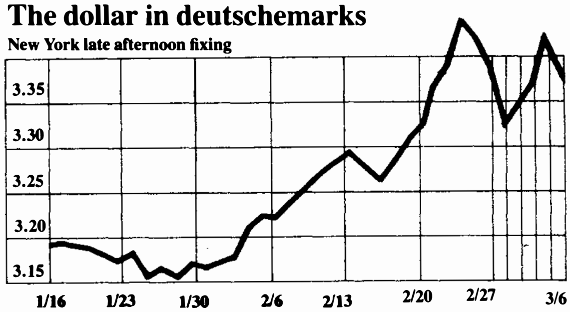
The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing