LaRouche demands: Scrap Gramm-Rudman now!

by Chris White

The crisis which erupted in Washington with the failure of the grand budget compromise of 1990 is rapidly running out of control. The emerging loss of confidence in U.S. federal government was addressed by Lyndon LaRouche from the federal prison in Rochester, Minnesota where he is being held a political prisoner.

LaRouche called for immediate action on two fronts: First, the notorious Gramm-Rudman-Hollings automatic budget-cutting mechanisms must be waived or otherwise repealed. Second, a national economic recovery program must be launched. Such a program would feature the promotion of internal infrastructure development, especially in the form of water, transportation, and energy construction projects. It would foster the rebuilding of the nation's tax base through generating productive employment in industry and agriculture. And it would return to the path of scientific and technological progress through a renewed commitment to the exploration and colonization of space.

The program LaRouche outlined on Oct. 10 as part of his campaign for Congress in Virginia's 10th C.D., is broadly similar to that employed by President John F. Kennedy in 1961 to reverse the effects of the Eisenhower recession of 1957-58. What worked for the country and Kennedy in 1961-63 will work again, even though today's circumstances are worse.

LaRouche told the people of his constituency: "We've got to put it back together. We've got to go for new forms of cooperation with our friends in continental Western Europe and Japan, to get the U.S. economy back on the track it was before President Kennedy was assassinated. That's the short of it.

"If the President will do that, if the Congress will cooperate with him in that direction, we can get out of the mess. If the President continues to cling, stubbornly, to his present policies, the United States is doomed to slide openly into a deep depression, and we don't have any time to waste. A major New York or other bank could go any day, and the whole slide could begin."

Admitting the problem

So far, neither the President nor the Congress has been prepared to admit what the problem is. And, if one is not willing to admit what the problem is, then it becomes very difficult to solve it. The United States is in a depression, while most of the economists continue to debate whether or not the country is about to go into a recession. Leaving aside the fakery which the Bureau of Labor Statistics and the Department of Commerce employ to compose their statistical series, even on their own terms the economy has been in depression for the last two quarters. Leaving aside the "fudge factors" which inflate employment data and, as a result, earnings data, purchasing data, and estimates of economic activity as a whole, the measure these characters employ, Gross National Product, has been below 1% growth for each of the last three quarters. This is sufficient to trigger the suspension of the Gramm-Rudman tax increase-budget cutting approach to the federal budget on its own—provided someone has the courage to repudiate the lies that everything is under control.

Failing that, there is an uncontrolled crisis emerging in the nation's capital and there is no telling where it will end.

LaRouche identified breaking point

The breaking point came two quarters ago, in precisely the March-April period in which LaRouche forecast such a break was to be expected.

On Sept. 19, 1989, from his prison cell in Minnesota, LaRouche commented: "We have a breaking situation in the financial, monetary, and economic realm. We are in the middle of a crisis. Exactly how this crisis will elaborate itself is not determined nor is it quite determinable."

The precipitating incident for his remarks a year ago was the default of Canadian junk bond king Robert Campeau, and with it the collapse of the junk bond market. The financial breaking point of Sept. 15 to Oct. 15, 1989, had been forecast by LaRouche in the spring of that year. LaRouche questioned how the spiral process of deflation, which he concluded had begun Sept. 15, 1989 with the failure of Campeau, would develop.

LaRouche continued: "The question now is, what is the rate of the acceleration of the spiral, has it moderated, has it slowed down temporarily? Nevertheless, it is inexorably going to continue. It is not going to reverse. It is going to accelerate."

Discussing whether the crash was on then, in the fall of 1989, or whether it would be postponed to spring 1990, LaRouche said: "The perception of what we mean by crash . . . the difference between the October versus the March alternative, is a general way of describing this—the crash has happened. The downward spiral will continue.

"The difference is, whether the acceleration causes the perception of a totally convulsive collapse, or not. In other words, is it a gradual decline, is it an accelerating decline, or is it a sudden, shock collapse? When the acceleration reaches a certain level, it becomes a shock collapse, as opposed to a process of erosive decay into a deeper and deeper economic depression."

The breaking point, as LaRouche warned, was reached in the spring of 1990, during the months of March and April, as the imminent threat of a liquidation crisis wiping out the U.S. banks began to be perceived by the powers that be. LaRouche warned in April that the crisis could be delayed, but not much beyond the fall. Events came to pass pretty much as LaRouche forecast, if the present policies were continued.

The methods of crisis management and consensus were employed to delay the day of reckoning. But what was delayed has now erupted full force as the biggest political crisis in years, with the collapse of sections of the banking and insurance sector next to come. The political crisis reflects the breakdown of the policy nexus which has run the country by way of the pragmatists' method of consensus and practicality—they call it policy, methods, and procedures—since the Watergate-induced reorganization of the Executive Branch and Congress, the origin of the present so-called budget process. This breakdown, the political reflection of the depression crisis, is accelerated by the refusal of the President and his advisers to admit what the problem that has to be addressed is, and by their obsessive insistence that the methods which have now been so conclusively demonstrated to be utterly bankrupt, are the continuing methods of choice for dealing with the crisis.

Greenspan looks like an ass

This is perhaps best exemplified by the case of Alan Greenspan, the chairman of the Federal Reserve Board.

Greenspan is a loyal team player too. He went on the record, endorsing the budget package that was cobbled together at the end of September, as the necessary pre-condition which had to be satisfied if he and his colleagues were to be able to lower interest rates. Now, the Federal Reserve has been drawn into the debacle too. Greenspan, in acting like the good team player he is, has put the Federal Reserve system into a box, and the banks and investment houses are screaming. They have been demanding lower interest rates, to the point of hyper-inflation, in order to roll uncollectible debts over again.

Now, it is said, Greenspan cannot lower interest rates without looking like an ass on the budget. And he can't reverse on the budget without looking like an ass. Investment houses like First Boston, Merrill Lynch, and Shearson-Lehman are about to be forced to swallow the loans they extended to finance the takeover binge of the last years. Moody's, the rating agency, has concluded such loans will not be repaid. The insurance companies, with Travelers in the lead, are also on the block. Travelers is being forced to sell off assets to raise funds to cover losses. And the crisis among the commercial banks is fully on.

But the breakdown in Washington is forcing interest rates up, not down, increasing volatility. At the same time the government, through continuing resolutions, has kept itself open by deciding to borrow another $70 billion between Oct. 11 and 19.

This has not been missed outside the United States.

"It's a lot more than a cyclical blip. We're talking about deep, structural problems in the financial sector, with no real indication that American officials understand what has to be done or are prepared to do it," said Norbert Walter, chief economist of Germany's Deutsche Bank, in reaction to the defeat of the President's initial budget package.

Economic historians looking back on this period will agree that since 1979, when Federal Reserve Board chairman Paul Volcker introduced his double-digit interest rates, there has been no recovery in the U.S. economy. The problems created by Volcker were compounded by the energy policies put in place by President Carter and carried out since, which destroyed the potential of nuclear energy and crippled the space program.

The tax revenue base, as measured in real market-basket terms, has been collapsing constantly since 1979. Since 1984-85, the rate of collapse has been accelerating.

The first step in turning the situation around is to get rid of the mythology about recovery, once and for all. Then what is needed is the kind of programs which LaRouche has elaborated over the years. If he had been heeded before, the present mess would not exist.