

EIRFeature

The budget debacle: Read the writing on the wall

by Chris White

Candidate for the Democratic Party's Presidential nomination Lyndon H. LaRouche has compared the process under way around the development of this year's federal government budget, to the Bible's account of Belshazzar's Feast found in the fifth chapter of the book of Daniel.

The God of Daniel was angered at the Babylonians and their king. They had set themselves up as violators of His law, and opponents of His will. He sent them a warning, interrupting their shameless festivities to do so. They did not comprehend. Nor did they heed when the Prophet unfolded the message that had been sent. Shortly after, in the Lord's good time, they were swept out, much like the garbage, and the other detritus, of their earlier great feast. Where they had sat, and sated, in celebration of their power and invincibility, now ruled the Medes and the Persians. Of what effect or capacity was their fabled power then? Belshazzar's mighty empire was no more.

So will it be with those who insist that government's expenditures be cut to bring outgoings in line with tax and other revenues, to achieve the chimerical goal of balance between the two. Be it within the seven years of Gingrich, Gramm, and Kasich, and their "Contract on America," or the ten years envisioned by President Clinton's budget bureaucracy, the grail of balance will never be achieved. Nor could it be, no matter how many of the poor, the old, the defenseless, the innocent, are offered as a blood sacrifice on the altars of their cult.

In seven years, they claim, or ten, we will bring the budget into balance, reducing expenditures to accomplish that. They thereby presume to know both what future expenditures will be, and what the future revenues available to meet those future expenditures will be. They also presume to know what the future purchasing power of those expenditures and revenues will be, seven or ten years hence. They so presume in extrapolating from present so-called trends. They have available approved trends which emanate from the Congressional Budget Office. They have consensus trends. They have other kinds of trends.



Sen. Phil Gramm (R-Tex.) and the other gurus of the Conservative Revolution say they will balance the budget in seven years. Their prediction makes about as much sense as the prognostications of the astrologers of ancient Babylon.

None of them mean a thing. They are all about as full of meaning as the prognostications of Babylon's soothsayers and astrologers were.

Expenditures by government, at whatever level, are not simply outlays of cash. They fund, as we show below, various economic activities, carried out by people, be it in the areas of education, health care, defense, law enforcement, or Social Security and Medicare payments of trust funds. Cut the expenditures, and what happens? The activities so funded are either curtailed or eliminated. For example, by 1990, government expenditures for school and hospital construction bought respectively 40% and 67% of what they did, measured in total floor space of facility constructed, back in 1967. And if the activities are curtailed or eliminated, what then? Well, first of all revenues will drop, because the tax or other revenue associated with the activity is curtailed or eliminated, along with the activity no longer funded. And, of course, in consequence, the expenditure line is also affected, by the new bodies who show up on unemployment lines, by those forced into hospital emergency rooms, for want of any alternative, and so forth.

On the face of it, the forward projections thus adopted are absurd. To attempt to implement those projections is to change the terms on which the projections have been made. Expenditures will not be reduced in the way Gramm, Gingrich, Kasich or anyone else asserts. Nor will available revenues be what they assume. People, however, will still die because of what they propose to do.

How many times have we been through this since 1980? Then, we attempted to reduce a \$50 billion deficit by these means. The result was to double the deficit. Then, by 1984-85, with a deficit of \$100 billion plus, we had the Gramm-Rudman debacle, under which expenditures were to go on autopilot, to be cut automatically if adopted targets were exceeded. And, pretty soon thereafter, we had a \$200 billion deficit. And, then, further interfering with the trends projected in the 1980s, we had the collapse of the savings and loans, and \$400 billion deficits. In the process, the federal government's debt quadrupled, and interest charges on that debt became as significant a factor in government expenditure as national defense, and almost as significant as education expenditures. Increasing interest charges had not figured in the projections. After all, each time we set out to balance the budget, we were supposed to be reducing the financial expenditure associated with the servicing of government debt.

With this kind of record, you might just as well go to an astrologer, palm-reader, or whatever other kind of fortune-teller strikes your fancy. They would hardly have done any worse.

Projections of government expenditures and receipts are based, in their turn, on projections of economic growth. It is assumed, for example, that trend-line economic growth, from whatever adopted base-year, will proceed at a rate of between 2.5% and 3.5% annually, over the term of the projection. Expected revenues can therefore be increased to re-

flect that anticipated growth. Present cuts in expenditure will thereby also breed greater reductions in the future, since the reduced amounts will no longer compound at the same rate. Unlike the frog of Zeno's paradox, the monster-creature that emerges from the rows and columns of this projection will successfully plop into the pond of balance at the end of the term. After all, the account is, of course, constructed from the desired end back to the beginning. That's how we know we're going to get there, because we are just retracing our steps. So, here they sit, already gulping down their dessert, before checking out whether the kitchens function, or the cook knows what he's doing, or even whether the place settings and the banquet hall exist.

LaRouche's Ninth Forecast

You see, they were warned. They were told of the folly and consequences of what they were, and are doing. They didn't listen, nor did they want to understand. The people who elected them were also told. They didn't listen either, nor did they understand. For their votes would certainly have been different, if they had done so.

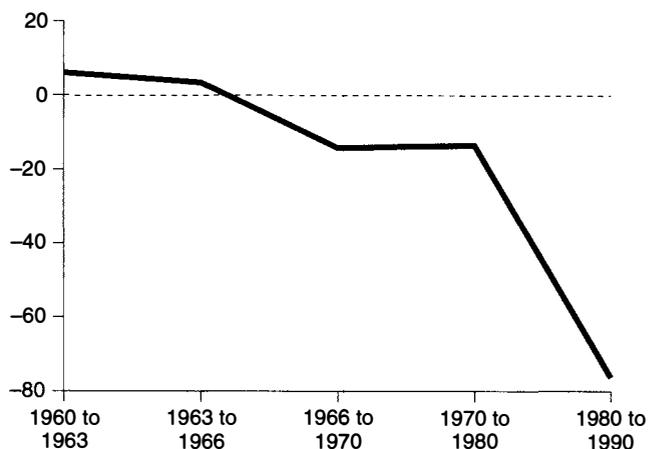
The warnings have come in the form of the nine economic forecasts issued by Lyndon LaRouche since the fall of 1958. His Ninth Forecast, published in *EIR* on June 24, 1994, and then in pamphlet form by the weekly newspaper *New Federalist* in August 1994, summarized an unmatched record built up over nearly 40 years, and proved, that the financial and economic crisis which had been forewarned in his earlier such efforts, had reached the point that without remedial action by government to effect an orderly bankruptcy reorganization of debt and derivative-sodden financial structures, preferably before the end of President Clinton's first term, the greatest financial collapse in human history would be unavoidable.

To restate: First, forget about all the monetary garbage that underlies the projected trend-lines extended out to a rosy utopian future. The reason there is a crisis, the reason there is a debacle ongoing in government finances, is that the population of these United States is no longer capable of producing but half of the standard of living it was accustomed to a mere generation ago. We cannot any longer support our old and our sick, our young and our poor, because we have destroyed the means necessary to do that.

In the terms of reference of LaRouche's Ninth Forecast, we can only produce half of what we used to do, with productivity half what it used to be. But, with thus shrunken capacity for wealth creation, we are burdened with a twelve-fold increase in the charges of financing debt and paying taxes. Since the continued growth of the combination of financing charges and taxes is made possible by cannibalizing the productive potentials of the economy, it must follow, as night follows day, that the whole arrangement will collapse. The more the financial charges grow, the less are the productive potentials remaining to service the enlarged financial

FIGURE 1

Ratio of debt service and taxes to unit decline in energy of the system



charges. It is not a process that can go on forever.

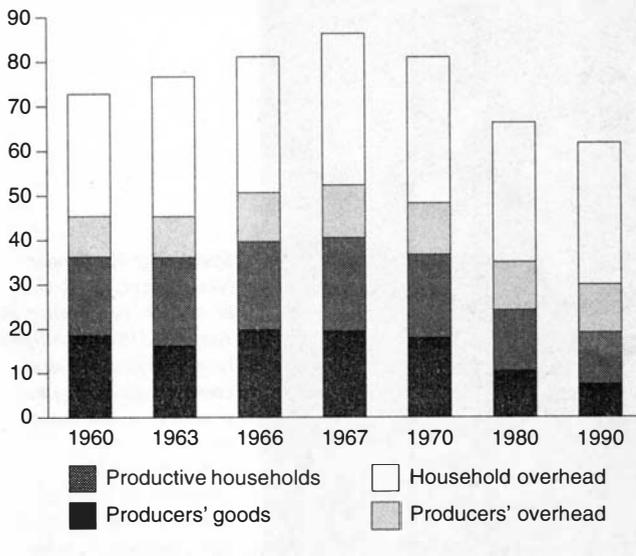
But, you see, some of them say, that isn't possible, we won't allow it to happen. We have means available. Yes, there may be some problems, but you are exaggerating, we won't let things get out of hand. We have procedures in hand that will enable us to deal with what you are talking about. We have the power, the power to do things, our way, no matter what the consequences. We are going to balance the budget.

There exists no such power. There exists a power to change. But that power is not accessible to those who insist on doing things the way they do them. **Figure 1** summarizes that reality, as it is expressed in an alternate, more truthful statement of trend. Two such trends are summarized in combined fashion: the growth of debt service and taxes, divided by the collapse of productivity as measured in ways discussed in LaRouche's 1984 textbook, *So, You Wish to Learn All About Economics?* The trend-line of productivity collapse, since the late 1960s, has been proceeding at a negative 2% per year. That trend-line has been neither interrupted nor changed. Thus, projected forward from 1990 to the present, given that absence of change, one would expect there to have been a further 10% decline; as a starting point for assessing what did happen, and during the life of the Gingrich-Grumm budget, there would be a further decline presumably in excess of 15%. The prospect over that time-frame would thus be an average living standard converging on one-third or less of what it had been 30 years before. Over the same period, the combination of financial charges and taxes has grown by an absurd 40% a year, with three-quarters of the growth concentrated in the interval since 1980. In this case, while productivity continues to decline, the claims of financial

FIGURE 2

Distribution of market basket inputs, based on 1967 household size

(tons per 1967 household)



charges would be doubling every two and a half years or so. Such are the rates that have been associated with the growth of financial derivatives since 1990, for example. So, again, assuming the continuation of the trend, while productivity would decline by another 15% to the end of the Gingrich-Gramm seven-year target, the financial charges which such productivity supports would double more than four times. The intent of the Gingrich-Gramm budget will accelerate things beyond the trend.

It won't happen like that. The idea is nonsense. Such trends cannot simply be extended forward. There will be a limit to the continuation of the trend as it has appeared to be. The limit will be a discontinuity, whose emergence will shatter the conceit that this arrangement can be maintained into the intermediate or indefinite future. The discontinuity is what makes the balanced budget projections lurid in their absurdity.

The numerator of the ratio in Figure 1 is straightforward. It is simply the sum of the total debt service paid on all forms of debt, and taxes. The denominator is an estimate of LaRouche's productivity ratio. It is put together as follows: The economy's total product is estimated on a market basket basis. Working backwards from final goods production, the flow of intermediate goods and raw materials into the production of such final product is first estimated, and then cross-gridded with flows of goods into infrastructural activities such as transportation, water supply, and power generation. For comparability, all items are converted into metric tons. **Figure 2** shows the inputs for this process, calculated on the

basis of the household size of 1967 (3.3 people). The inputs, assembled in the way identified, are further subdivided by function, that is to say, where those inputs are to be consumed. The subdivision is two-fold: producers' goods on the one hand, and household goods on the other, recognizing a division between those goods, such as machine tools, industrial equipment, transportation equipment, industrial precursor chemicals, which are used in the machine-building capital goods part of the economy, and those goods, such as foodstuffs, clothing and textiles, footwear, appliances, and automobiles, which are consumed by households. School and hospital construction is included in the household market basket, industrial plant in the producers' goods basket. Infrastructure construction, for these purposes, is subdivided in cross-gridding producers and consumers goods, as a proportion of their combined total. The two primary market baskets are then each further subdivided to separate that part of the goods flow which is employed in productive activity, and by productive households, from that part which is consumed for overhead, e.g., administrative or sales functions, and is not directly productive. Then the whole, and the parts, are scaled to a common 1967 basis.

Then one can compare both what is produced, relative to that common 1967 basis, and one can consider productivity, how it is produced, also in terms of that common 1967 basis.

It might be objected: Well, fine and good, you've got a total, I can see how you can express cubic feet or cubic meters of gas in oil equivalent tons, but what is the point of combining food, clothing, and steel in a common measure? What does that tell you, if anything? To which the answer might be given: Yes it is a total, but, first, it is not a dumb, undifferentiated total, because it is known where everything included goes, and what is required to produce everything included. So, the total is internally differentiated. Second, one also knows what the purpose of each ton is, defined as to whether that ton contributes productively or not.

Look at Figure 2 again. Note that the successive bars after 1967 decline; note also the changing proportions within the bars, as that part of the total inputs assigned to productive purposes declines, and that part assigned to overhead functions increases.

This could already be compared favorably with the measures of economic growth employed by those who produce idiotic projections for budget slashers and their allies. Now we've got a measure which looks at what we are capable of producing relative to fixed, but higher standard, which is in the direct knowledge of people in their forties or older. The economy has not, on this basis, been growing as they say it has.

But that is by no means all. The purpose of an economy is not simply to produce things. It is to reproduce people. We don't produce food and clothing and shelter for the sake of it, but because people have to eat, clothe, and house themselves. This is not confined to those who work. Despite Gingrich



Speaker of the House Newt Gingrich (R-Ga.) at a press conference in January 1995. Contrary to what Gingrich and company believe, an economy is not based on money, and expenditures by government are not simply outlays of cash. The question is, what real goods and services are the economy producing?

and Gramm, this country, like the civilization of the western world, was based on the idea that the wages of those who work ought to be sufficient to provide for the household which they support—that is to say, for children, and for wives, in the case the worker is male, and for the aged. Thus, improvements in the way we produce what we do, including total transformations that technological innovation permits, enable us to support more people at ever higher standards of living.

This is what indeed we used to do, until that brief interval of four years, between the assassination of President J.F. Kennedy on Nov. 22, 1963, and, for want of a better date, the so-called Summer of Love in San Francisco in 1967. It was not perfect. There was much to be desired. But, from the founding of this republic until that interval, the path for all citizens, however rough and uphill it might have been, was leading from improvement to improvement. The improvements reflected the rising productivity of society as a whole, and affirmed the uniquely superior species nature of man. For, man in the image of God, has the creative potential to transform, through the power of ideas, the conditions of his existence, in order to further transform the conditions of his existence.

What makes society human?

LaRouche's proof of this was developed in the cited, *So, You Wish to Learn All About Economics*, and in many other

publications. For any society, operating within a relatively fixed mode of technology, the costs of producing the food and other raw materials must increase, even as the population continues to grow. This increase in costs will be driven by the relative depletion, to the point of exhaustion, of those relatively fixed technologies. Then, such a society must collapse, not because such limits are real, but because such a society lacks the ideas to overcome such apparent limits. Prior to the Golden Renaissance of the fifteenth century, there is no real evidence that any human society had ever addressed that problem in a durable way. The worldwide pattern, found throughout human history, of family-based oligarchies, ruling a relatively bestialized 90-95% of a predominantly rural population, as if they were subhuman herds and chattels, constitutes proof of a sort.

The organizers of the fifteenth-century Golden Renaissance transformed the basis for all human existence, creating, for the first time, a society fit for humans, in which the idea of man in the image of God was institutionalized in the form of the nation-state, and secured through the spread of public education. The transformations thus set in train are what permitted man to free himself from his dependence on the rhythms and cycles of rural life, to increase his population in a way never before seen in human history, and to develop the ideas, from which would spring the industries which would organize his food production, his transportation, and the creation of the cities in which he would live.

Out of this process as a whole, LaRouche defined a set of constraints which have to be satisfied if society is to advance under conditions of increasing productivity. Output, as a whole, has to increase. Food production has to increase, but the labor cost of food production must decline. The durable goods content of the consumer market basket must increase, but not as fast as capital goods production increases. The energy of the system, thermodynamically, must increase, as also the flux density of application of energy. The level of technology must advance. Overhead functions must decline.

These constraints can be stated in ratio form. First, isolate that part of society's activity which does contribute to the reproduction of society as a whole. (In the present case, that is done by reducing overhead to the level which prevailed in 1956, when such functions accounted for approximately 54% of the labor force, as compared, for example, with over 75% in 1990. Apportion the throughput between those portions needed to maintain the households of productive workers, and necessary overhead, and that part required to produce the producer goods. If the whole grows, growth between years can be considered as the net surplus, after necessary overhead is deducted from the previous year. If the whole is declining, it can be apportioned as a loss. Net surplus or profit divided by the sum of the productive costs, would then provide a profit ratio or measure of the productivity of society. Necessary overhead, added back to the costs in the denominator, would define the energy of the system. Net profit, or free energy, divided by the energy of the system, would provide the free-energy ratio.

The ratios ought to increase in such a way that the reinvestment of net surplus or free energy not only produces an increase in the denominator of the ratio, but also an increase in the net surplus or free energy, at a rate faster than the costs and expenses of the denominator are increasing. Such conditions can only be met if the level of technology employed is continually advanced, in such a way as to lower the costs of producing net surplus or free energy, even while the growth conditions are being satisfied.

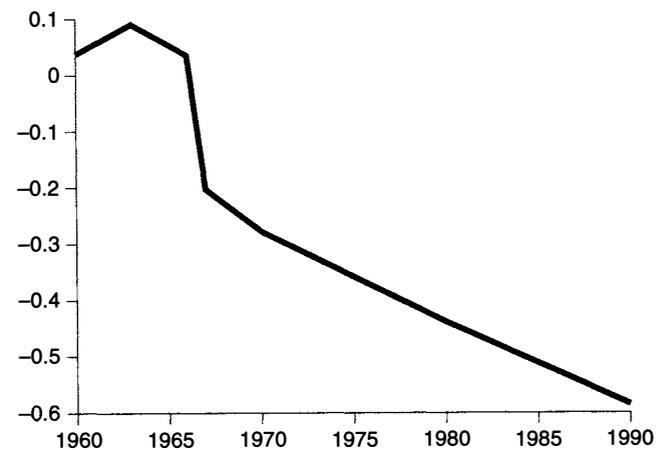
If the values of such ratios are positive and rising, one knows one is dealing with a society which is functioning as a human society should. If the ratios are negative, the reverse is true. If the ratios are not only negative, but continually falling, that society is going the way of Belshazzar's Babylon, and all the predecessor oligarchies to the Golden Renaissance. **Figure 3** plots estimated values for the profit or productivity ratio of the United States from 1960 onwards.

Don't then complain about what is being done now. This is a society which turned its back on what had made it human a generation ago. For it was then that the legacy which had made us, was rejected in favor of the relative bestiality of the oligarchism which mankind has always fought to defeat.

Then it was, too, since we turned away from our humani-

FIGURE 3

Rate of profit of the economy (S'/C+V)*



* For definition of S'/C+V, see Lyndon H. LaRouche, Jr., *So, You Wish to Learn All About Economics? A Text on Elementary Mathematical Economics*, New York: New Benjamin Franklin House, 1984.

ty, that we turned away from God's law too.

And, what might all this have to do with the budget? Hey, don't you get it? Thirty years ago, or so, we turned away from the path which human existence proves to be the only one which permits man to realize his creative potential in the image of the living God. And, we have refused to hear, when we have been told that that is what we have done.

Prior to the middle of the 1960s, we used to assume, for example, that the nuclear family, with one wage earner and sufficient children, given falling infant mortality and increasing life expectancy, could aim successfully to provide the children with a better life than the parents had had. In the combined names of the 1960s counterculture, the so-called post-industrial society, and, ultimately, the free market, we destroyed all that.

We accepted that children were a "luxury" that we as a society could no longer afford. We wanted a different lifestyle. And we got it. Now, the labor of one adult cannot support one, shrunken household. The children we could not afford, became the workforce which is insufficient to provide for itself, and its families, never mind those whose age has moved them out of the workforce.

We thereby destroyed the basis for continued human existence, and thereby, in consequence, the tax base on which budget policy depends. The tax base might look like a pile of money. That is not what it is. It is earners, with jobs producing sufficient income to qualify. Companies producing real earnings, out of which taxes can be paid. If everything is nearly 50% down from where it should be, it stands to reason that the tax base is, too.

FIGURE 4

Consumer goods per household

(tons)

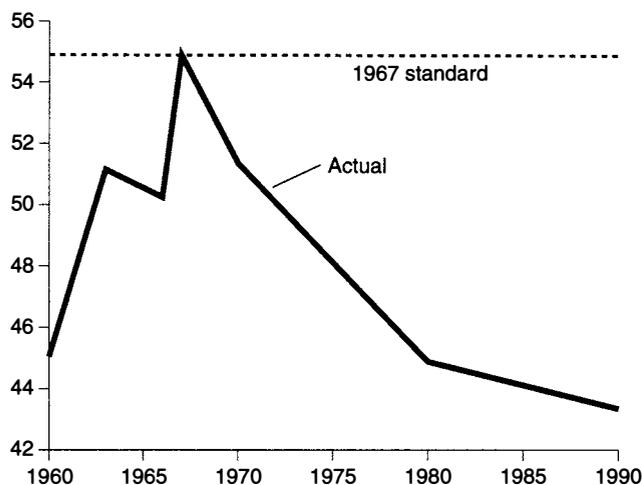
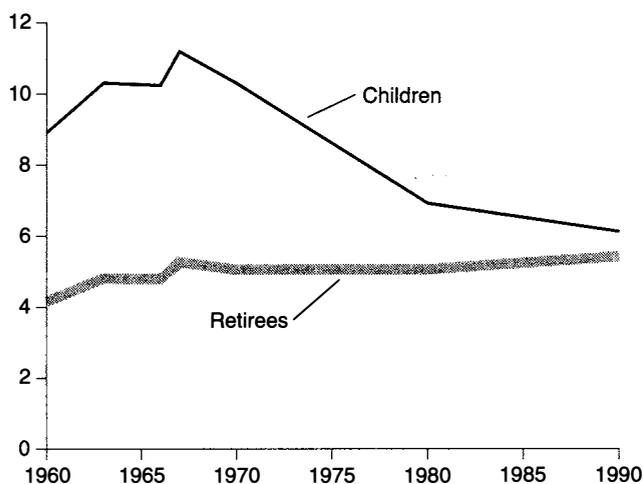


FIGURE 5

Share of children and retirees in consumers' market basket

(tons per household)

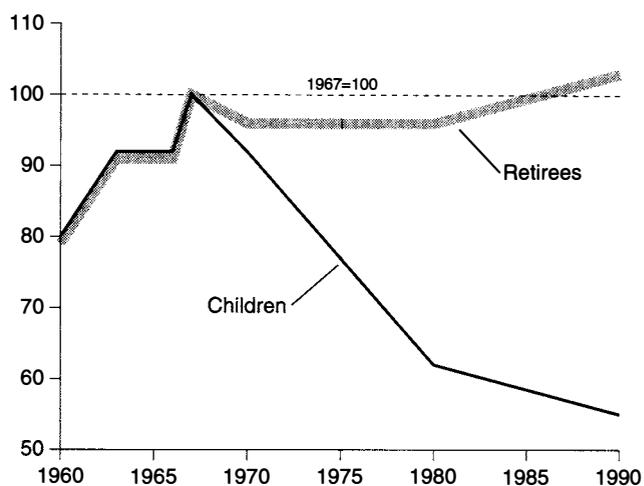


This is illustrated, in a way, by the following series of charts. Let's just focus on aspects of the market basket of consumers goods, for this reflects an aspect of the collapse that shows as the destruction of the tax base, because it reflects the destruction of household earning power, and thus of the economic activity which produces those earnings. **Figure 4** compares the adopted 1967 standard for the consumers' market basket, with what has happened since. **Figure 5** focuses on the share of children and retirees in that

FIGURE 6

Share of children and retirees in consumers' market basket, relative to 1967

(index of 1967 share=100)



consumers' market basket. This simply divides the total content of the consumers' market basket into the proportions that children and retirees make up of the total population. **Figure 6** restates those proportional shares relative to what they had been in 1967. Of course, since the whole is falling, the proportion allotted in this way to children will fall faster than the whole. The retirees' share increases, because retirees, as a percentage of the population, are increasing faster than the population as a whole. **Figure 7** shows what those proportions are. Thus, note, we are allotting 20% less for both segments of the population than we ought to be.

Figure 8 isolates that part of the overhead component of the consumers' market basket which is in excess of the 54% of 1956, and compares that parasitical share of household consumption in its growth, with the share allotted to children and retirees. Here is a picture of what society's true priorities have been. We neither provide for the young, nor for the aged, but we do squander nearly our all on those who make no contribution to developing the reproductive power of society. Parasitism is the increase of overhead functions, and thus also of the drain of product and labor required to support such consumption, beyond the 54% of the labor force of 1956. This is the unacceptable increase of employment in finance, real estate, and insurance, of the growth of low-pay jobs in the sales sector, and so on.

So, essentially there's a choice. The choice is between, for example, the projections that the congressional budgeteers are using, 2.5-3.0% continuing economic growth, and the view of the country that is presented here, and which has been the subject of LaRouche's repeated warnings. Which of the two views better corresponds with reality? The one that

FIGURE 7

Retirees and children, as percent of total population

(index 1967=100)

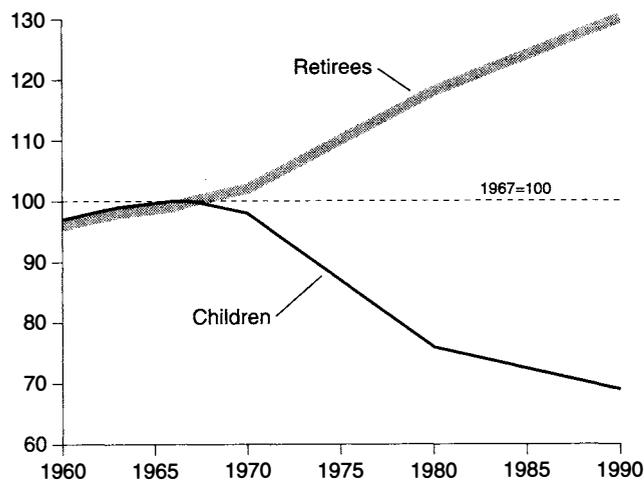
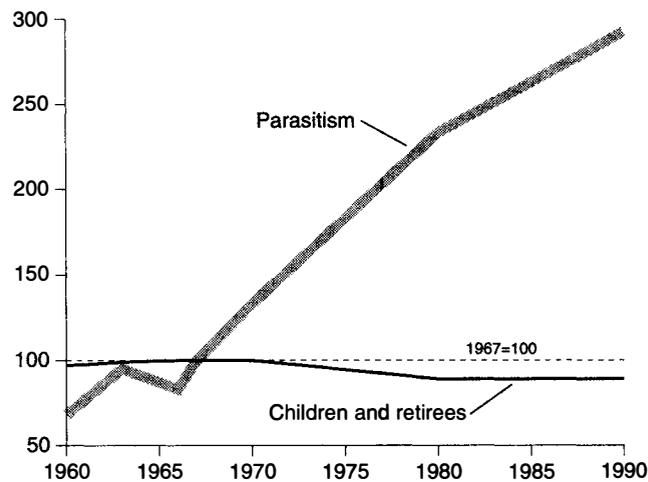


FIGURE 8

Growth of parasitism, versus children's and retirees' share of consumers' market basket

(index 1967=100)



says, we're doing fine, all we have to do is more of the same, and we'll keep on doing fine, or the one that says, and has said, if we keep on like this, we are doomed to disaster, and identifies why?

Role of government is vital

What can be done to straighten any of this out? Forget about anything else, it requires a government that can function, and leadership that recognizes what is going on. Without action of government, there is no solution to any of it. Without leadership, government can't provide the needed action.

There is no agency, other than government, which has the power or authority to straighten out the monetary mess, through bankruptcy reorganization. There is no agency, other than government, which has the power to use such a bankruptcy organization to open the way for fresh policies designed to rebuild the tax base.

No private interest, or combination of private interests, has the power, or capability, to begin to straighten out the mess that prevails in the education and health systems.

Why does it require action of government? First, because both parts of the social fabric are drowning in a rising tide of debt taken out to refinance older, maturing debt. Second, because there is no solution to crises in either the educational or health systems, unless we change our view of who we are as a people. After all, what does the government represent?

We decided not to produce children as we had before. We decided not to provide for those we did produce. Could such a people, or its representatives, straighten out the health and education systems?

Table 1 includes some parameters of the nation's educational system over the last generation. Clearly, when you don't produce the children, you will not need the teachers in such numbers either. Nor will you need the schools.

The same is true of health care. Who is to take upon

TABLE 1

Education parameters

	1960	1963	1966	1967	1970	1980	1990
Pupils per household	0.88	0.91	0.94	0.95	0.93	0.72	0.65
Pupils per teacher	34.16	26.85	25.08	21.92	25.33	23.92	21.45
Pupils per school	393.26	476.76	551.69	571.97	650.15	682.41	711.31
Teachers per school	11.51	17.76	22.00	26.09	25.67	28.53	33.15
New school construction per household (index 1967=1.00)	0.91	0.87	1.03	1.00	0.75	0.31	0.40

TABLE 2

Health care parameters

	1960	1963	1966	1967	1970	1980	1990
People per doctor	696.50	654.39	626.87	617.12	630.00	497.79	406.09
Nurses per person	358.47	334.35	316.52	310.49	273.40	179.04	145.72
People per hospital bed	109.04	111.25	117.14	119.48	126.97	166.84	206.36
People per hospital	26,260.34	26,504.44	27,452.56	27,714.37	28,799.46	32,721.01	37,580.15
Hospital visits per hospital	3,637.65	3,851.82	4,071.37	4,094.98	4,108.43	5,174.28	4,674.74
Hospital visits per person	0.14	0.15	0.15	0.15	0.14	0.16	0.12
New hospital construction per household (index 1967=1.00)	0.61	1.06	0.92	1.00	1.06	0.61	0.67

themselves the part of God, to decide, who gets treatment and who does not, who lives and who dies? Isn't that what we as a society do every day? We don't want the children, and we will not provide for those we have, nor for the aged. It is in the record of the last generation. Who, then, can really complain about Gramm and Gingrich? Aren't they just speaking for what the whole country has been accepting and doing?

Table 2 sets out some parameters of the nation's health care system. Look at what has happened to the ratios of

people per hospital bed, people per hospital, and the index of new hospital construction. Hey, the facilities aren't there! Well, you know, we do things more efficiently now than they used to. We've gotten rid of an awful lot of waste. Yes, I see, but what happens when people get sick?

We can't any longer do what we used to be able to do, or produce what we used to be able to produce. But that is the way most of us wanted it.

What, then, is written on the wall? Who are the participants in the king's great feast?

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