How *EIR* knew where Volcker was leading

by Vin Berg

In a presentation that stunned the 30 economists, businessmen, and foreign diplomats present, Uwe Parpart reported that the "anti-inflation" policies of the Carter administration are intersecting its "energy conservation" policy to assure that a hyperinflationary collapse of the American economy will occur within three to six months. Parpart, director of research for the Fusion Energy Foundation and a contributing editor to the *EIR*, spoke at a symposium on the LaRouche-Riemann economic model jointly sponsored by the Fusion Energy Foundation and *EIR* April 8 in Washington, D.C.

Parpart, an expert on the work of 19th-century mathematician Bernhard Riemann, based his analysis of the Carter-Volcker measures on the groundbreaking Riemannian economic model employed by FEF and *EIR* and developed in collaboration with economist Lyndon LaRouche. He prefaced his talk by challenging his audience to name "any other voice" raised that had predicted the inflationary effects of the highly restrictive credit policy Federal Reserve Chairman Paul Volcker announced last October.

Analysts working with the Riemannian model were alone in understanding that those measures, as well as the new steps announced by the president March 14, would worsen inflation, not attenuate it, Parpart said.

"How did we know this?" asked Parpart, referring to the climb from 7 percent to an annualized average 20 percent inflation rate since Carter assumed office. "Everyone called these measures anti-inflationary. Mind you, we did not say Volcker's measures would have no effect, or that their effect would be offset by other factors. We said that these measures would themselves be a major contributing factor in turning inflation into Weimar-style hyperinflation by February 1980. This has now happened. Did we just make a lucky guess?"

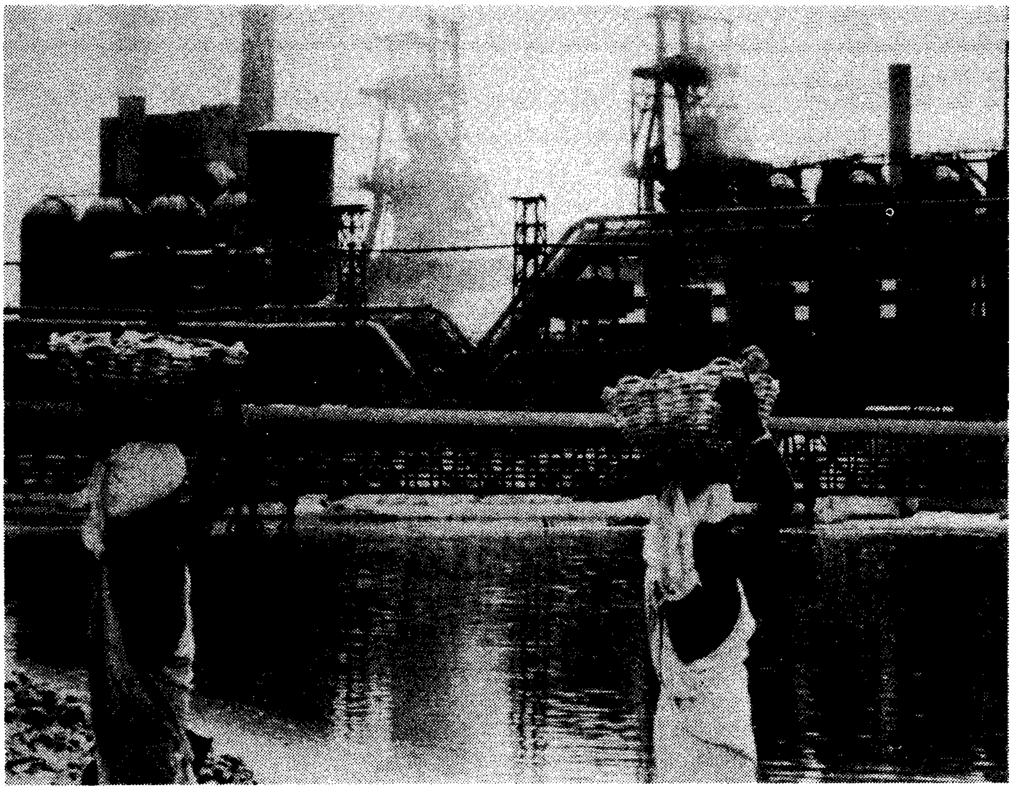
Two kinds of inflation

Two distinct but interrelated phenomena constitute inflation. "First, there is structural inflation," said Parpart. "The long-term trend in the U.S. economy has been for a shift into 'service-oriented activity' away from employment in production of tangible, useful industrial output. Whereas 58 percent of the labor force was productively employed after World War II, only 38 percent are so employed now; the rest, however necessary or unnecessary their service, constitute pure 'overhead' costs," which must be financed.

"If you view the economy as a whole, as a single corporation, and measure the growth of the totality of indebtedness in the economy against the growth of the totality of output, we clearly see the economy heading toward insolvency."

But this, he said, accounts for only "the single-digit component of inflation," the rate of inflation obtaining when Jimmy Carter took office.

Parpart directly related a second source of inflation to the decline in the value of the U.S. dollar. "It is fashionable to argue that a lower value of the dollar will increase U.S. exports, by making their price more competitive. On the contrary, it is empirically the case that



India, plagued by backwardness, but the ninth most productive economy in the world. Said Dr. Parpart, the full development of such nations is "the primary task" of the next two decades.

the dollar's decline has occurred because of and in direct correlation with the decline in U.S. exports."

Currency speculation allows dollars abroad to earn profits, he said. But although dollar earnings may grow, there is no connection to reality. "Nothing has occurred to increase production and trade volumes sustained by these dollars. There are nearly a trillion footloose dollars not tied to trade in any way."

The shift from productive to nonproductive "services" must be reversed by a combination of "interest rate and tax policy measures placing the premium on long-term, capital-intensive, technology-vectored investment to increase both industrial output and productivity," said Parpart. "How can this be done under Volcker's policy!?"

At present, Parpart said, "anyone who were to come by some funds must invest them speculatively, to get *quick* returns in order to cope with the pressure of inflation and high interest rates. Volcker's measures penalize the kind of fixed capital investment needed to end structural inflation, precisely because that kind of investment takes the longest time to mature."

If we restore incentives for U.S. industrial growth, he continued, the problem of inflation is reduced to restoring the dollar "to the kind of currency it was before John Connally took it off gold back in August 1971."

"Gold-backed notes issued by European Monetary System nations, the Treasury, and possibly regional pools of Third World nations could absorb Eurodollars and convert them to useful investment, connecting them to real trade, and primarily, investment in the Third World." If U.S. industrial output is geared up, then by augmenting the lending capacity of the Export-Import Bank, "U.S. industrial growth can be directly tied to world development through exports."

Why collapse is imminent

The most foolish and dangerous feature of Carter policies, said Parpart, is "energy conservation" in the form associated with the recommendations of two Harvard economists, Hudson and Jorgenson. They propose that the economy will not suffer if human labor is substituted for energy use.

"But if you substitute labor for machinery," Parpart said, "what you do is decrease the energy intensity of the economy and effect a decline in labor productivity. It is that simple. And 10,000 years of human history back up that assertion."

"But what does recovery from inflation depend on if not adjustments in the economy to *increase* productivity? Thus, as Carter and Volcker have pursued short-term policies in the domestic and foreign economic realm producing hyperinflation, they are pursuing an energy conservation policy that is destroying the basis in the productivity of labor for any potential recovery."

"In sum," Parpart concluded, "this economy, as things now stand, without a quick and directed reversal of these policies, will be destroyed within three to six months."