# The Great Depression is back

*John Hoefle, Steve Parsons, and Anthony Wikrent survey the monetary and economic ruin of the United States after a decade of "recovery."*

The U.S. economy managed to stagger to the close of the 1980s. But after a decade characterized by infusions of such poisons as junk bonds and a perverse "service industries" orientation, the economy is moribund. So is the waning political power of its Wall Street managers, who have kept it alive through an increasingly cruel impoverishment of the workforce and enforced looting of productive capacity. The decade-long orgy of speculation that characterized the Reagan-Bush "economic recovery" has destroyed the ability of the economy to overcome its parasites. The fleas have killed the dog.

## Three phases of collapse

Despite the George Bush administration's hysterical denial of reality, the U.S. economy is in a desperate, worsening depression, which is leading the world into a collapse best described as a New Dark Age. The breakdown, as analyzed in summer 1989 by *EIR*'s founder, Lyndon LaRouche, has proceeded in three phases:

1) *Physical economic breakdown.* This is the fundamental process driving the depression collapse. Because of the enforced shift to a post-industrial society in the mid-1960s, the U.S. economy, as a productive enterprise, has been bankrupt since the period 1981-82. It is no longer capable of physically producing the output required to maintain break-even levels of functioning. The result has been an increasing cannibalization of society's current productive capacity and its labor force, as well as its means of future production, through a lack of replacement of infrastructure, the contraction of physical plant and equipment, and the descent into obsolescence of what remains.

2) *Financial breakdown.* The U.S. economy has been financially bankrupt since 1985-86, when earnings became insufficient to cover current costs and expenses, and cash flow was unable to cover even interest payments on a ballooning debt bubble that had all but replaced real economic growth. In significant degree, the astounding growth in debt—from under $7 trillion in 1984, to over $20 trillion today—is the proof. The debt has grown, not because it is being paid, but because unpaid principal has been rolled over and added to the total, thereby increasing the total outstanding of interest-bearing claims. This piling of debt upon debt is the "miracle" known as the "Reagan recovery."

3) *"The run on the bank."* The economy is now decidedly in this third phase of collapse, a spiraling deflation of the nominal value of financial paper and property titles, whose prices have been run up through enormous speculation and debt monetization. At the end of the line—now not very far away—is the collapse of the banking system, when financial bankruptcy turns into actual runs on the banks, starting with the liquidation of supposed assets to generate ready cash to pay debt. If the supposed assets cannot be liquidated, or, alternately, can be, but at a fraction of their book value, then the debt instruments are not worth the paper they are printed on. Then such creatures as leveraged buyouts become leveraged blowouts, bringing down bank and other financial institutions' assets in multiples of five times and more the debt directly affected.

## The deflationary spiral

LaRouche has indicated that the singular event marking the onset of the "run on the bank" deflationary spiral was the Sept. 15 debt default of the highly leveraged Campeau department store empire. This default triggered a financial shock wave, first precipitating the collapse of the $200 billion-plus junk bond market in September, then the near-blowout of the stock and futures markets in October, and at year-end an accelerating devolution of corporate earnings and real estate values.

This acceleration of the deflationary spiral is building the shock wave into the financial equivalent of a sonic boom, which LaRouche estimates will hit the various markets full force in approximately March-April 1990, leading toward a "run on the bank" which would soon become obvious to all. If the Bush administration tries to avoid this certainty, by ordering a loosening of credit and reflation, the spiral will simply take off in the opposite direction: It will become a hyperinflationary spiral, exceeding that of Weimar Germany and its wheelbarrows full of worthless paper money, and actually increasing the destructive force of the inevitable financial blowout.

The reality is that without a change in fundamental financial and economic policy in the direction specified by Lyndon LaRouche, there is no stability in sight. If more money is thrown at the problem, it may postpone a blowout until next spring, but the collapse at that time will be much, much worse. There will be either a hyperinflationary spiral, or a deflationary spiral, with no middle ground.

## The science of economics

LaRouche's ability to identify the problem so precisely is based on his *scientific* approach, which continues the tradition of the "American System" of the first U.S. Treasury Secretary, Alexander Hamilton, of Abraham Lincoln, and of their forerunners in the European school of physical economy going back to Leibniz and the great thinkers of the Renaissance. We summarize the premises of that outlook here, to situate our analysis of the depth of the U.S. economic collapse and the threat it poses to all of mankind, if present policies are not reversed in what LaRouche last May prescribed as a "bootlegger's turn" from the past two decades' follies.

Economics is not, as the so-called "experts" would have you think, about money. The science of economics starts from the *moral perspective* that the proper role of economics is to establish an environment in which society as a whole has a constantly rising standard of living, such that each generation is increasingly more propserous and more able to meet the challenges with which it is faced.

To accomplish this noble purpose, the economy must be organized in such a way that *scientific and technological breakthroughs* occur and are assimilated throughout society at the highest rates possible, maximizing the productive capability of the land and the productive powers of human labor. That way, not only will the amount of land required to sustain an average person be constantly reduced, but the amount of productive work done by the average person will be constantly increased. This, in turn, will permit a given land area to support more and more people, at ever higher standards of living. This *increase in potential population-density* is the standard by which the productivity of economies is measured.

The process is self-expanding and nonlinear. An advance in technological progress creates the conditions for an increase in potential population-density, fostering the conditions under which such scientific advances can be put into general use by the population. Those advances, properly applied, lead to further increases in potential population-density, and thus increase the likelihood that the speed of technological progress will increase.

Conversely, a break in the process causes the reverse effect, with a slowing of the rate of technological progress, and a resulting decrease in potential population-density, causing the standard of living to inexorably ratchet downward. This conceptual moral framework is the basis for any competent economic work, and the standpoint from which policies must be made and evaluated.

## LaRouche's solution

In a statement issued Dec. 15, Lyndon LaRouche poignantly summarized the nation's economic predicament. "We're in the Great Depression of 1989-92," he said. "And the only good news would be a change in economic policies dumping the Gramm-Rudman-Gorbachov budget-balancing legislation, and dumping all of the other policies which have been built up over the past 25 years since the mid-1960s.

"What we have to do is go through a recovery program like that which got us out of the last Great Depression. We have to go back to being a nation committed to scientific and technological progress, whose tax structure and credit structure is designed to promote job creation in capital-intensive, energy-intensive, advanced technological modes. There's nothing wrong with this economy caused by our so-called competitors, Japan and Germany. We are suffering nothing except what we have done to ourselves with the stupid policies in Washington. The collapse of the S&L banks is not a result of crooked bankers; it's a result of the policies of deregulation which Washington, through the [Sen. Jake] Garn bill and other means, imposed upon the banks, including the S&L banks, in 1982.

"So let's wake up," LaRouche continued. "The Great Depression is on. Do you want a recovery, or do you want to continue with a depression? Come January through March and April, you are going to be suffering. Real estate values will be tumbling—and I mean tumbling—not a few percent off, but deep, deep collapse all across the country. Jobs will be shut down. White-collar and service employment layoffs will pyramid and escalate . . . unless we change policy, unless we decide we're tired of this old policy of Thatcherism which is ruining the United States.

"Let's get back to what we were in the early 1960s: a nation committed to space; a nation committed to scientific and technological progress; schools geared to scientific and technological progress; capital-intensive investments supported by investment tax credits and low-cost credit for good purposes; a nation rebuilding its infrastructure; water rebuilding; rebuilding our forests where needed; recovering and restoring land where needed; rebuilding our transportation system, our highways, our railroads; rebuilding our power production and power distribution system so we can continue to exist without blackouts and brownouts; rebuilding our sanitation systems; rebuilding our schools; rebuilding our health-care delivery systems.

"If we do those things and provide tax incentives to investment in agriculture and manufacturing, and to an industry such as machine tools and related service industries, and if we apply cheap credit selectively to these kinds of investments in infrastructure, in agriculture, in manufacturing, we're going to find that everything else works just fine."

In the pages that follow, we survey each major facet of the crisis.