The world economy in depression

by Michael Liebig

Michael Liebig, director of EIR Nachrichtenagentur, established for the Moscow conference participants that the economic breakdown in Russia and eastern Europe, hideous as it is, is only one component of a global crisis. The worldwide financial collapse means that the belief, still widespread in Russia, that the International Monetary Fund or other institutions of the collapsing Versailles and Bretton Woods systems have anything at all to offer, is a delusion. These excerpts include the conclusion of Liebig's presentation.

The following remarks focus on the economy of the United States, still the single largest sector of the world economy. Albeit with modifications and time intervals, most of the mentioned trends have materialized in the other sectors of the world economy as well. . . .

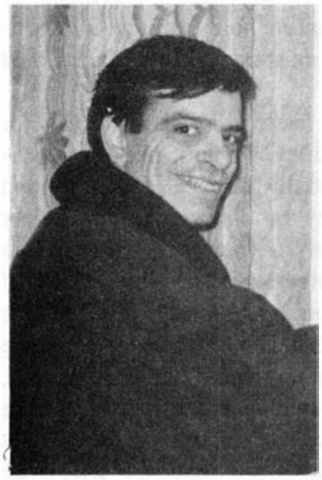
In 1989 the process of decomposition of speculative financial accumulation began to spread to the eroding *real economy*. Overindebtedness in agriculture led to the bankruptcy of 30% of America's family farms. The massive losses, insolvencies, and mass layoffs began in the aerospace industry and spread through the auto industry, machine tools, chemicals, and finally the high-tech sectors such as computers. Reduced purchasing power resulted in an escalating crisis in wholesale and retail trade, contraction in turnover, and the closure of numerous shopping chains. The use of credit cards and the growing employment of housewives veiled the fact that the real purchasing power of the average industrial operative in the U.S.A. had fallen incrementally but steadily since the beginning of the 1970s. With the layoff waves of the 1990s, disposable family incomes of the American middle class began to collapse, a situation exacerbated by the pressures to pay off consumer credits. Rising unemployment goes along with relative or absolute impoverishment of the growing so-called marginalized population. . . .

Austerity and neo-corporatism

One would think, that with the realization that economic liberalism led to the depression, the hour of *neo-Keynesianism,* the traditional "anti-cyclical" conjunctural policy, would have arrived. Over the 1980s, American neo-liberalism in practice swallowed up Keynesianism. The public debt—"deficit spending"—of America spiraled over the 1980s during the Reagan-Bush administrations to approximately *$4 trillion*. Debt service on this public debt has officially absorbed 17% of the federal budget. This monstrous public debt was incurred without any tangible real economic effect. Worse yet, the gigantic public debt was incurred at practically *usurious* credit conditions in order to become attractive to foreign and domestic investors. There is no room any longer in the U.S.A. for "anti-cyclical" expenditure programs on the Keynesian model.

Keynesian "deficit spending" is premised upon the ability to access private national and international capital markets. International investors became increasingly reticent, particularly since 1987, to continue to finance the $4 trillion U.S. deficit spending, even when they are offered objectively usurious conditions. In September 1992, the board of directors of the International Monetary Fund put the U.S.A. under "IMF surveillance," declaring the federal deficit unmanageable and demanding tax hikes and budget reductions of $250-300 billion per year in order to reduce the deficit. . . .

Faced with this dilemma amidst depression in the Anglo-



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Saxon world and the deepening recession in Europe and Japan, the transatlantic financial establishment's consensus is opting for a strategy of *deflationary austerity* and *neo-corporatism*. Austerity signifies a reduction of the average standard of living through income reduction, tax increases, and cuts in social expenditures. Neo-corporatism contains elements of economic policies of Mussolini fascism in Italy, Nazi economic policy designed by Hjalmar Schacht up to 1936 in Germany, the economic policy of the Swedish social democracy in the 1930s, and the Roosevelt "New Deal" in America.

The integrity and servicing of the debt structure is the chief task of neo-corporatist economic policy. . . . With neo-corporatism, economic and social policy is increasingly taken away from parliamentary institutions, instead it is determined by a combination of government agencies, private "expert" institutions, and trade unions integrated with them. Government-sanctioned and -financed private mega-cartels of illiquid financial and industrial enterprises are to be created. Foreign economic policy would tend to become increasingly aggressive.

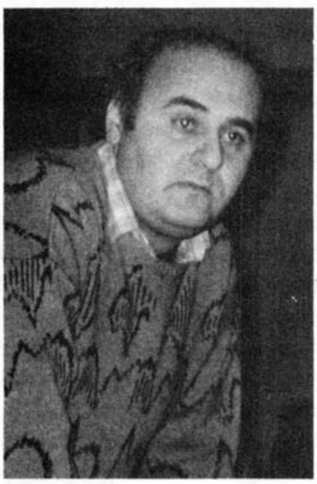
The case of Felix Rohatyn

One of the most important proponents of neo-corporatism in the U.S. and internationally is New York financier Felix Rohatyn, who almost certainly will play a key role in or behind the next U.S. administration, even in the unlikely case that the next President is not Bill Clinton, whose close adviser on economic policy he is, just as he is a long-time friend of Ross Perot. Rohatyn plans for government and Congress to relinquish budgetary affairs in favor of private financial administrations, which would be able to implement the necessary, drastic reductions in expenditures "without regard to electoral-political concerns."

Rohatyn also wants the resources of public and private pension funds to be made accessible to the state by forcing them to purchase special state bonds. Some $4,000 billion are to be made available by this means over the 1990s. In the mid-'70s, Rohatyn himself headed up such a private compulsory administration for the over-indebted, insolvent city of New York, the Municipal Assistance Corporation ("Big MAC"). Rohatyn proposes to apply this model of austerity for the United States as a whole. . . .

One wonders if the transatlantic financial establishment, pursuing austerity and neo-corporatist economic strategies, has forgotten the results of austerity/corporatist policies in 1930s. They seem to have overlooked the results of the small-scale experiment in New York City under Rohatyn, which today is worse than ever. These policies triage the real economy in order to sustain an unsustainable financial structure. The head of the House Banking Committee, Rep. Henry B. Gonzalez (D-Tex.) said on March 17, 1992: "Men like Alexander Hamilton . . . recoiled at what all through the centuries was *usury*. . . . That is what has been flagellating our country now, ferociously, since the late 1970s. Until that is resolved and is stabilized, I can assure you that we will get nowhere." Reducing the average standard of living by 20-30% to service debt will correspondingly lower production output, capital equipment renewal, the quality and quantity of "soft/hard" infrastructure, and tax revenues.

The rationing and triaging of the real economy, in human and material-technical terms, in the 1930s was brilliantly analyzed by de Gaulle's economic adviser Jacques Rueff. Austerity and corporatism, as epitomized by the German example between 1931 and 1936, did not close the "scissors" between the "fictitious values" of the debt structure and the shrinking potential of the real economy. Instead, totalitarianism and war were the consequence. Yet, there is no historical determinism. There is an alternative anti-depression strategy: the Hamiltonian national banking approach put forward by LaRouche, which expands the productive real economy through state credits, while freezing and consolidating past debt structures.



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