

THE SEEDS OF DESTRUCTION

THE COMING ECONOMIC EARTHQUAKE by Larry Burkett (1994)

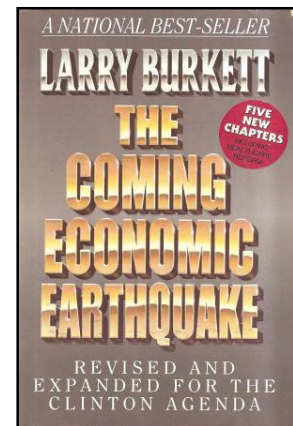
A NATIONAL BEST-SELLER

You've heard the term before, "seeds of destruction". Another World War and yet more prosperity and prominence occurred in America. But entitlement programs became the failed experiment for the government as Larry writes:

The federal government, after running budget surpluses or only slight deficits during most of the Eisenhower administration, began its disastrous experiment with massive entitlement programs.

Continuing in the line of presidents, Lyndon Johnson "was consumed by two strategies that would prove to be the most costly in American history." One was the war in South Vietnam and the other was the "war of poverty". During this period, the government raised taxes and posted recurring budget deficits.

By the early 1960's, about 7% of the average-income families' gross earnings went to taxes, and about 15% in interest payments on debt; but within a decade the tax liability was 14% and interest was 22%. During that time, the federal government's tax revenue increase by 42% while income increase on average by 12%.



By 1970, the "seeds from the New Deal" were beginning to "germinate", as Larry puts it. The national debt had grown to \$400 billion in 1970 and, in less than a decade, grew to \$829 billion in 1979. In this massive growth was out-of-control interest to the degree that it – not just the principle – had to be financed. From millions in early century, to billions mid-century, to trillions today! Coincidentally, the budget deficit (not the national debt) is projected to exceed a trillion dollars!

To get some perspective on the size of a trillion dollars, Larry uses this illustration:

- A million dollars tightly bound would be 4 inches thick
- A billion dollars would be 300 feet thick (or high)
- A trillion would be about 63 miles high or 320,000 feet high

Now you have some concept of the size of a trillion dollar in thousand dollar bills.

One outcome on the average family during this period was that many mothers went to work.

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Larry notes that government strategies of the 70's failed to take into account two critical factors:

- Deficits would eventually translate into higher inflation
- Compounding interest would create even greater deficits

The 70's also brought rapid inflation and the Arab Oil Crisis. Those price controls had been enacted in the early part of the decade, by the mid 70's controls had dissipated and prices had jumped radically.

As Larry points out, inflation causes people to buy-now to seemingly get the best price of value on declining currency value.

During the Carter administration, the national debt increased \$250 billion – the largest increase in history at the time. In 1979, inflation was at 12% per year; hence, the Federal Reserve decreased the money supply. From the period and condition came a new term, “stagflation” – that is loosely described as both inflation and recession.

Another aspect of or cause for inflation is artificial increase in the money supply, according to Mr. Burkett. The higher prices associated with inflation is a symptom – and not a cause of inflation. Larry continues:

Inflation of the money supply is precisely why the New Deal administration removed our money from the gold standard and, later, the use of base metal coins was substituted for silver coins. The government economists now have created a mechanism where-by they can regulate currency as they deem necessary. The result is inflation.

The current monetary system is called a fiat system; a system unsupported by gold or precious metals.

But inflation declined in the 80's, but why? Tax changes instituted during the Reagan years lowered the liability for the wealthier and, thus, increased the confidence while lowering inflation. On the downside, this period resulted in greater national debt.

Larry notes that historically, countries borrow money – especially to finance wars. But the U.S. has continued to borrow money beyond major wars and, thus, has propelled the debt to unprecedented levels. The debt is at such levels that the interest, let alone the principle, cannot be serviced without financing it.

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Adding some other alarming – even unfathomable – figures to the picture of our debt and deficit, Larry brings the crisis home when he says that in 1960 the average taxpayer worked 36 days to pay all of their taxes, but in 1993, 123 days! For government to continue to operate, it must cut spending, increase revenues, or borrow money from other governments.

At the personal level, debt has become a way of life for many. Though dated to 1993, the statistics of personal debt paint a clear trend toward increased borrowing and debt versus savings and income.

A lesson for any and all of us is presented from Proverbs, chapter 22:
The rich rules over the poor, and the borrower becomes the lender's slave.