4. Recession: no Carter recovery

Most private projections for the unemployment rate expect a postwar record of 11 percent by August, about the time when the Democratic Party will have to decide whether it can live with President Carter as nominee. An 11 percent national rate implies official unemployment of 15 percent or higher in major electoral-college vote states Carter won in 1976, including Pennsylvania, Ohio, Illinois, New Jersey, and Michigan.

Carter will suffer by an additional order of magnitude of intensity the drawback his opponent in 1976 faced; President Ford could say with some truth that the economy was at the beginning stages of a recovery, while Carter will face what appears to be a bottomless collapse. On all the criteria, Jimmy Carter cannot be elected in November.

What makes the situation worse is the public's intuition that Carter does not have a handle on events. In particular, the President's statement last week that the Administration's economic policy would begin to show results by summer is plainly nonsense. From the public's viewpoint, the successive debacles of Administration economic policy, including the Congressional rejection of the proposed Fiscal Year 1981 budget, the Congressional refusal of the proposed oil import fee, and the Senate's plan to eliminate the Administration's credit control authority, have not been individually dramatic. But the country's sense by convention time will be that Jimmy Carter has less command over economic policy than did Herbert Hoover.

Last March, when Federal Reserve Chairman Paul Volcker imposed stringent credit controls, including a 9 percent overall ceiling on bank lending, the Administration committed the sort of blunder that loses elections. As *EIR* demonstrated through analysis on the LaRouche-Riemann computer model of the American economy, the cost of Administration-directed investment programs in energy, defense, and basic industry was a 20 percent inflation rate. By the computer model's sophisticated measure of productivity, i.e., the increment of tangible surplus product yielded by an increment of employment, American productivity has fallen by a consistent 3 percent p.a. since 1976. This measure effectively factors out forms of activity which are globally nonproductive, but nonetheless show up in output-per-man-hour data in a way that overstates productivity. During the first quarter of 1980, however, the 2.3 percent drop in manufacturing productivity indicates that the two measures may be coming into closer alignment.

The inflationary cost of economic expansion in the direction the Administration desired was the consequence, as *EIR* demonstrated in a comprehensive survey during April, of energy conservation. Administration economic policies oriented investment away from capital-and-energy-intensive sectors into labor-intensive sectors. However, the Administration's investment de-

Super Tuesday's vote: 'none of the above'

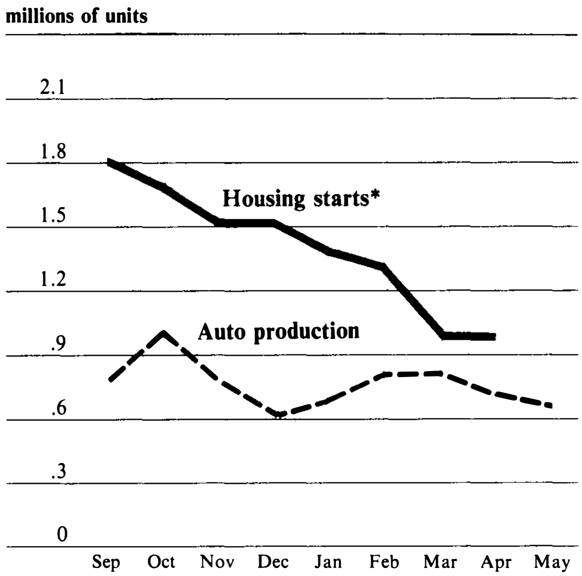
The results of Super Tuesday reveal that if Carter were nominated, he would lose the November election to Ronald Reagan. The primary reason is the state of the economy—on which voters don't trust Reagan either.

A CBS-New York Times poll reveals that many of those who voted for Carter in the primaries would not do so in November. In Ohio, the only 'big state' Carter won, 29 percent of his primary votes would disappear in the general election. In California, it is a staggering 41 percent.

Carter did very poorly in hard-hit working areas in all three states. The economy, say exit-polls, was the key issue on voters' minds. Few thought that any candidate would do well handling it. "Again and again," says the *Washington Star*, "they were choosing the lesser of the evils, voting against candidates rather than choosing someone they wanted. . . ."

The same dissatisfaction was seen in the 11 percent "uncommitted' in California, and more sharply, in the abysmally low turnout; less than 23 percent of New Jersey Democrats voted, and not much better for the GOP.

The state of U.S. industry



* Annual rate, seasonally adjusted.

The state of the workforce

The sharpest increase in new unemployment claims and in heavily industrial Michigan's unemployment hit in April and continues to climb steeply. It was at this time that the heavy industrial capital goods sector entered the economic crisis and voters turned toward uncommitted.

mands, including costly forms of oil exploration, expansion of coal mining, downsizing of auto vehicles, and similar exercises created additional demand for the output of energy-intensive sectors. The resulting shift in the input-output grid, combined with the direction of investment into globally non-productive investment, produced 20 percent inflation.

Volcker surveyed the first-quarter economic results and panicked. The economy was not responding to earlier credit stringency, except in the consumer sector. Unlike any previous recession, this one went in two distinct stages. Automotive industry, aircraft industry, and energy industry demand raised capital goods output until the end of March, while the consumer sector collapsed. Volcker could not tolerate the inflationary consequences, and opted for a form of credit stringency that the United States had never adopted in its previous history.

The March 16 credit-control measures produced an almost instantaneous collapse of steel and other capital-goods orders, followed shortly by mass layoffs and the closing of blast furnaces in the steel industry. Once the banks informed customers that they could not obtain the volume of credit required to maintain expensive capital expansion programs, companies cut back sharply. Several tool-and-die and steel casting manufacturers told *EIR* that their orders turned from fully booked to rapid cancellation during the third week in March, virtually overnight.

Volcker provoked what will probably be registered as the fastest rate of industrial decline in American history, exceeding even the brief and bitter 1921 depression. The Riemannian analysis employed by *EIR,* which takes into account the continuing structural deterioration of American industry, predicts that the American economy cannot recover under present circumstances, because the marginal cost of restarting production with depleted capital and labor resources exceeds the possible profitability of such investments.

In summary, Carter has thrown the big-state labor vote out the window; the rumblings now will be inconsequential compared to what will emerge out of the economic deterioration this summer.

The business community cadre that helped Carter across the finish line in November 1976 are defecting. Business Roundtable chairman Irving Shapiro will give Carter no support this time around, according to aides. Banker Felix Rohatyn is already working with the Anderson campaign. However, business leadership has an even closer sense than labor of the impossibility of a Carter candidacy. The *New York Times* editors put the matter in unctuous fashion in a June 5 editorial:

> Even if Mr. Carter can skillfully neutralize the Kennedy challenge, the reasons for such wide voter

discontent would remain. The public gives no sign that it endorses fighting inflation on the backs of the unemployed.

However, it is not only the electorate, but business leaders who have nothing in principle against "fighting inflation on the backs of the unemployed" who are bolting. What *EIR* has emphasized in its reports of LaRouche-Riemann computer-econometric simulations has slowly dawned on an increasingly large business group. The implications of a no-recovery recession are the continued growth of Soviet military power while America struggles to maintain its current low standard of preparedness; the galloping erosion of the Atlantic Alliance due to the divergence between the American recession and the relative prosperity in Europe, due in part to expanded trade with the Soviet Union; and the inability of any conventional policy to yield predictable results under present conditions.

Many, although not all, of Carter's supporters from the 1976 campaign are persistently urging his removal. There is no way to read "business sentiment," because the flow of information and analysis that usually mold a predictable "Business Roundtable" standpoint has been choked off by the unpredictability of events. Of course, these events were highly predictable to those who looked in the right places, but that short list included no members of the administration. Contrary to the *New York Times*' statement of the problem, the issue is not merely the alienation of the electorate, but the ability of the man in the White House to guide the nation out of a profound and potentially fatal crisis.

As Treasury Secretary Miller and Federal Reserve Chairman Volcker indicated in public statements this week, the Administration will stick to the "anti-inflationary" tack for the moment, until it has dug the conventional six feet for burial underneath the White House. The Treasury has prepared contingency plans for tax abatement, but a tax cut of the magnitude discussed by the Joint Economic Committee, at $25 billion, is an insignificant possible factor in the economic situation.

The only really serious discussion of economic alternatives involves a set of proposals originally discussed quietly by Rep. Henry Reuss (D-Wisc.): "dirigistic" intervention into specific industries to forcibly raise basic productivity. However, the Administration has no apparatus for such a program, let alone authority to persuade Congress to make a go of it. The authors of such a proposal, in any event, have little concrete idea of how it might be applied. Therefore the possibility of a Rooseveltian response to the economic crisis by the administration must be ruled out; the only possibility is a half-baked, rapidly aborted move in that direction.

On these criteria, Carter will add to the weekly list of unemployment claimants as of Aug. 11.

Reagan can't get the blue-collar vote

When the primary and caucus season got under way, the various political pundits were talking about Ronald Reagan's brand of "conservative Americanism" being able to take the blue collar vote away from the Democrats. In the early primaries this certainly seemed to be the case, with droves of blue collar Democrats crossing over to vote for Reagan in Illinois, Wisconsin and in New Hampshire. This prompted talk of Reagan being a new "Wallace phenomenon."

But as the primaries have worn on, Reagan's blue collar vote began to disappear into the "none of the above" or "not voting" categories.

What happened? The economic crisis caught up with Reagan.

In the beginning, workers listened to Reagan's vague prescriptions about the economy—he stated openly that he would say nothing specific until the fall of 1980—and workers hoped against hope that those prescriptions would eventually be formulated into some fresh, workable ideas. As the unemployment lines grew and auto plants closed, even the vague ideas of "Reaganonomics" began to grate.

The May 20 Michigan primary, where Reagan suffered his most overwhelming defeat, shows the depth of disillusionment of labor. Officials of the United Autoworkers would like to have people think that it was their efforts to show their members that Reagan is anti-labor that proved decisive. While Reagan and his advisors may indeed by anti-labor, the UAW had similarly mobilized against Wallace and Wallace did very well in Michigan. It was Reagan's statements—"his firm belief"—that the auto industry was suffering from a good and deserved dose of free enterprise and warranted no special aid, like the Chrysler bailout, that turned workers away from the GOP candidate.

Reagan organizers should not have been surprised when after handing out several thousand leaflets for a pre-primary meeting in Flint, Mich., only 18 workers showed up—perhaps the lowest turnout of the campaign. Nor should Reagan people have been surprised when no auto workers showed up at the polls May 20, handing the hapless George Bush an overwhelming victory.