Recovery: then what is a depression?

by David Goldman

One of the most extraordinary events in economic history occurred on June 23, when the U.S. Commerce Department announced "a year of solid recovery." According to the department's annual survey, the "1983 Industrial Outlook," major industries including steel, auto, chemicals, machinery, construction equipment, agricultural equipment, and oilfield equipment, will never recover to their pre-depression production levels.

The International Monetary Fund has also issued a report on the U.S. economy, whose recommendations are only available to member governments. *EIR* has learned that the IMF projects no growth in the U.S. economy and no capital investment in basic industry during the next four years. Nonetheless, the IMF praises the "recovery" and argues that the United States must continue cutting wages and reducing federal support for the unemployed in order to maintain that "recovery." A senior IMF official cited the proliferation of work camps employing tens of thousands of laid-off steel, auto, and other industrial workers doing unskilled labor throughout the South, as an example of what the IMF has in mind.

If this is a recovery, then what is a depression?

First of all, the industrial base is still in a state of collapse. Machine tool orders remain 57 percent below the previous year's already-disastrous levels, leaving the industry with less than half a year's work on its order books. Production of industrial equipment is 14 percent below the previous year's level, with a a 29 percent drop in mining and construction equipment. The collapse of oil drilling is only one factor; even more important is the 40 percent drop in U.S. exports to Ibero-America, including an 80 percent drop in exports to Mexico, which was the U.S.'s fastest growing market abroad until the IMF crushed the Mexican economy.

Production of railway equipment is about half what it was a year ago. Public works construction, as well as industrial construction, remain 11 percent below the year-earlier level. The steel industry, by its own most optimistic projections, will ship 68 million tons of steel this year, as opposed to 62 million last year. The total was 100 million as recently as 1979 and 110 million tons in 1974.

Even more extraordinary is the fact that *in 1982 consumption of electricity declined for the first time since World War II*. Overall electric power consumption for the first five months of 1983 was down an additional 2.6 percent from the first five months of 1982, and industrial power use was down more than 6 percent.

With the death of basic industries, the "sunrise" industries were to have bloomed. No administration official has explained why Atari, the largest manufacturer of video games, ran major losses during the first quarter of 1983, or why Texas Instruments, the electronics giant which threw its corporate future into personal computers, also suffered losses during the first quarter.

As for the supposed drop in unemployment, it is the invention of Labor Department statisticians who decided that over 1 million formerly employed workers were no longer to be counted in the labor force.

Moreover, federal revenues during the October-April period were not merely $22 billion below the comparable period a year earlier, but they have continued to fall since the supposed recovery began last December. This is completely without precedent. For the first eight months of the 1983 fiscal year (starting October 1982), the period of supposed recovery, the federal deficit was twice as large as in the comparable year-earlier period, which presumably represented the worst of the recession. This year the deficit has been $161.81 billion, against "only" $81.14 billion last year. Tax revenues have collapsed across the board. And, atop the estimated $210 billion federal deficit, there is about $100 billion in so-called off-budget federal support to the mortgage market, not to mention $8.4 billion to the IMF and a few tens of billions of dollars in other off-budget operations.

Regan and Volcker bought this "recovery" through the biggest financial hoax in American history. The stupendous deficit numbers reported above are not at odds with the behavior of the economy, although deficits have always in the past evaporated during periods of recovery. *The deficit has run out of control not merely because we are not in a recovery, but because the out-of-control deficit is the means by which Volcker and Regan bought something that could be presented as a fair imitation of a recovery.*

The supposed recovery is centered in only two industries, auto and housing, with some spillover into consumer durables. With a more than $100 billion per year federal kitty behind it, the housing industry has reached an annual level of 1.7 million new starts as of May, a 70 percent increase over the 1982 lowpoint. As a result, feeder industries have improved from levels reflecting less than half their production capability. But 1.7 million housing starts is not impressive in a country that built 2.3 million homes in 1972.

The other output category which has risen since last year is, of course, automobiles, which are 13.4 percent above last year's abysmal level. The auto companies are offering financing at 3 to 4 percent below their own cost of funds: they can afford this because Donald Regan has reduced the corporate tax rate to about zero. But the chain-letter game Regan and Volcker have played with the budget probably can't last through the third quarter of this year.