4) That the rise in interest rates will trigger a general reduction of availability of large-scale mortgage credit and discount-rate auto loans.

5) That the overhead costs of the economy, defined by both the military budget and the additional cost of unemployment compensation and other social welfare programs, will remain high as a result of depression.

Figure 1 shows the production of tangible profit and the overhead spending in the U.S. economy from 1979 to 1983-84. Tangible profit has fallen from a 1979 level of $521 billion 1972 dollars to a level, in 1982, of $468 billion. As shown, overhead spending has exceeded tangible profit for three of the past four years, and this gap is shown to increase to $40 billion 1972 dollars in 1983. Note that no specific prediction of overhead is made for 1984, since this is a derived quantity in the model.

Figure 2 shows the growth rate of tangible profit. The figure indicates a modest rise (2.6 percent) in 1983, followed by a fall of 9.7 percent in 1984. This rapid decline is the consequence of both an anticipated worsening of the world financial situation and the exhaustion of the productive capabilities of the economy without reinvestment, during the current period.

Figure 3 shows the tangible wage bill for the entire productive economy. Wages considered net of inflation and "service" costs have been falling throughout the period from 1979, and the "recovery" of 1983 will no more than slow that fall. The figure indicates a new decline in 1984, in synchrony with the overall economic deterioration.

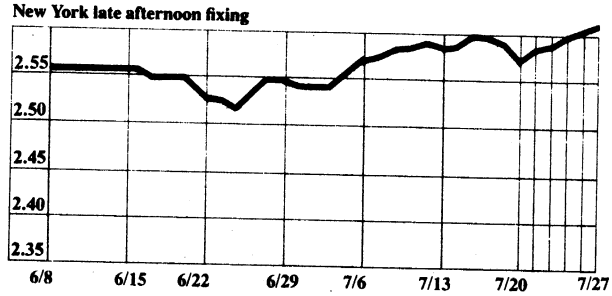
Figure 4 shows the labor productivity of the economy as defined by the LaRouche-Riemann model, the ratio of tangible profit to the tangible wage bill of the productive work force. This ratio has continued to rise and the increase between 1982 and 1983 is not unusual. However, the figure shows a decline between 1983 and 1984, as the increased productivity "wrung out" of the economy is not sustained. The ratio of overhead to the tangible wage bill is also shown, an indication of the burden placed on the productive work force by the current structure of the "service-oriented" economy, as well as by continued high costs of maintaining a large unemployed population.

Figure 5 shows the replacement cost for all plant and equipment in the economy. The decline from $72.5 billion 1972 dollars in 1982 to $70.5 billion in 1984 reflects the decreases in capacity which are occuring as plants are shut and obsolete equipment is not replaced.

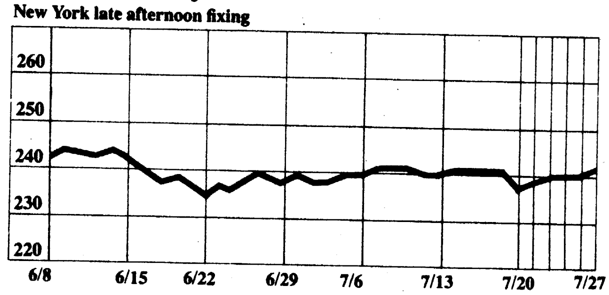
Figure 6 shows the ratio of net reinvestment to total operating cost, $S'/(C+V)$, as predicted in our April forecast and now. This ratio can be considered the potential growth rate of the economy, and while the economy is not declining in 1983, the potential for such a decline has not been reversed. In our forecast, the current expansion, based only on productivity increases without capital investment, leads to a more negative rate of reinvestment, and thus a more negative potential for growth in 1983-84.

Currency Rates

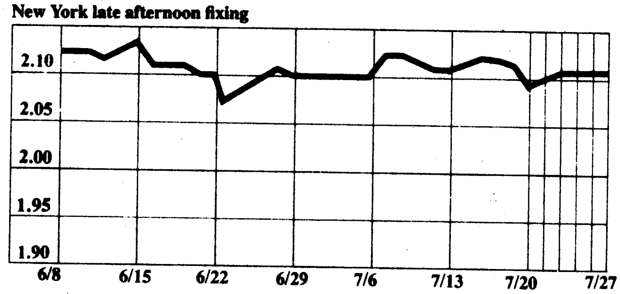
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing