Summiteers push disintegrating U.S. economy as success story

by Richard Freeman

The June 28 economic communiqué of the Group of Seven (G-7) heads of state contains a massive fraud: It promotes the myth of the "U.S. economic success story." It sings a siren's song of the supposed benefits that would accrue from globalizing the world economy: "economic growth and progress . . . unprecedented expansion of investment and trade . . . the proliferation of skilled jobs." Recognizing that globalization would not bring about real growth, but instead would implement a global United Nations-, International Monetary Fund-, World Bank-, World Trade Organization-administered zero-growth dictatorship, the British-run authors of the communiqué single out for praise the U.S. economy as a model. The "United States continue[s] to enjoy sustained non-inflationary growth," it asserts. The supposed U.S. economic model of growth is used to justify keeping the world subjugated to the same financial-economic policies that are plunging it toward the biggest economic collapse in 500 years.

In reality, the U.S. economy is at the brink of total breakdown. Over the past 30 years, America's productive labor force has shrunk dramatically as a percentage of the total labor force. America is incapable of physically producing its own existence. Its physical productivity, measured by the output of the commodities of the consumer and capital goods market baskets, has plunged by more than 40% since 1967; so, too, has its standard of living.

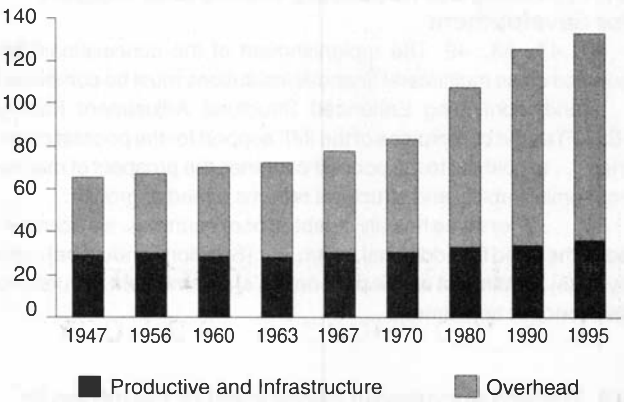
One wonders whether at the summit's black-tie state dinner, hallucinogens were on the menu. We present a real picture of the U.S. economy.

Destruction of the labor force

America's economy is being ground up by a 30-year growth of usurious speculative financial aggregates. In the mid-1960s, the British financier oligarchy imposed the policy of the "post-industrial society." Manufacturing, agriculture, and infrastructure were progressively stripped down; speculation was unleashed. In October 1979, U.S. Federal Reserve Board Chairman Paul Volcker sent interest rates into the stratosphere; in 1982, Vice President George Bush led the deregulation of the U.S. banking system. The cancerous speculative bubble, growing at a hyperbolic rate, sucked the life out of the physical economy.

The best measure of whether the U.S. economy is rising or falling, is to determine its productive activity, by examining the composition of the labor force. **Figure 1** shows total U.S. labor force employment from 1947 to March 1996. In 1947, nearly half (47.2%) of America's labor force of 60.9 million workers was engaged in productive or essential (mostly infrastructural) employment. By March 1996, only 26% of the U.S. labor force of 133.7 million workers was so employed. Over the past 49 years, the employed U.S. labor force grew by 72.8 million, more than double 1947 levels. Yet, of the increase, only 6.0 million are classified as productive and essential. The rest of the growth of the labor force of 64.8 million represents pure overhead. In fact, for the period under consideration, the strictly productive labor force (not including essential workers) actually fell from 26.4 million in 1947, to 26.0 million workers today, a decline of nearly half a million.

FIGURE 1
Size of U.S. labor force, 1947-96
(millions)

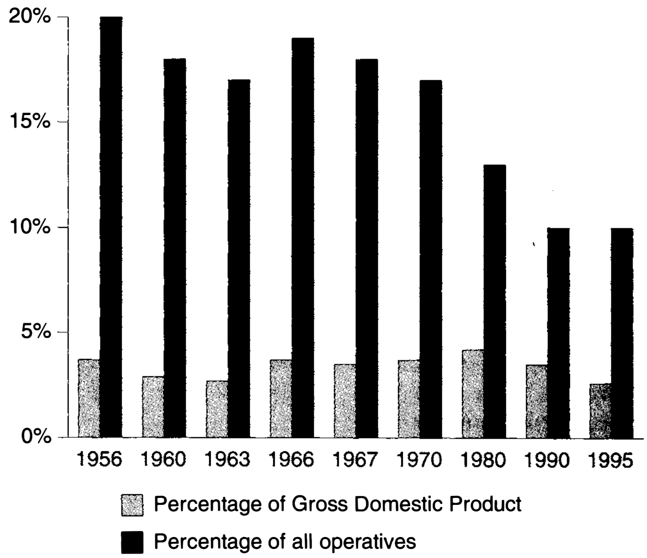


The significance of this shift is immense. Productive workers are defined as the non-supervisory workers engaged in employment in manufacturing, agriculture, construction, mining, transportation, public utilities, and communications. These workers physically produce (or transport) goods, *by altering nature:* fashioning wood, refining and casting ores, etc. Their importance can be understood from the standpoint of physical economics, which begins from the central premise that man, created in the living image of God, possesses the power of creative reason. By physically altering nature, man transforms otherwise useless raw materials and energy sources into finished products, something no animal can do. By virtue of his creative reason, man alters his species behavior, improving the power of his productive labor. Man effects a succession of revolutionary scientific discoveries; for example, developing the heat-powered machine and other machinery and capital goods, which upshifts the entire mode of production. This makes possible an increase in the rate of relative potential population density.

Workers engaged in productive employment drive this process forward. Chief in importance among the non-productive portion of the labor force is employment in "soft" infrastructure, such as medicine, education, and science. These workers perform the vital function of transmitting knowledge or critical services to those who are productive. All other employment is overhead.

As stated, today, 26% of the labor force consists of productive and essential labor; therefore, three-quarters of the entire labor force is overhead. A company with three overhead workers for every worker who produced something, would have a self-destructive ratio.

FIGURE 2
Manufacturing investment and employment



Sources: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of Economic Analysis and Bureau of the Census.

'Authoritative' report on U.S. job success, is a hoax

The pretense of authority for references to the "U.S. job creation success," made in Lyons by U.S. Treasury Secretary Robert Rubin, and others, and carried in the G-7 economics communiqué, is a 10-page report, released in Washington, D.C. on April 23, titled, "Job Creation and Employment Opportunities: The United States Labor Market, 1993-1996." It was written jointly by the Council of Economic Advisers, under its chairman Joseph Stiglitz, and the Office of Economics of the Department of Labor, headed by Lisa Lynch. The report was the basis for Rubin's press conference at the summit, in which he reported that America had created 9.4 million jobs since January 1993, more than all the other G-7 countries combined.

The report promotes what some economists call the "American labor market mobility model," in which workers "flow" from the goods production workforce to jobs in the service sector. But these are traditionally low-wage jobs. So, to sell this model, the document claimed that many of the jobs created were in managerial and executive positions, and that two-thirds of them paid above the median wage.

EIR found most of the claims of the report to be half-truths or untruths. We will publish a detailed refutation of this document in the near future.

—Richard Freeman

Second, whereas in 1947, each member of the category of productive and essential workers was needed to produce enough goods and infrastructure to support two families (his own and the family of someone engaged in overhead), today, every such worker is called upon to produce enough for his family and the families of 3.0 overhead workers. With 2.6 persons per American household on average, the productive worker must produce enough to support 10.4 people. Were productivity levels rising, because of the introduction of new technology, that might be possible, but the policy of the post-industrial society forestalled most technological advance.

Figure 2 shows the picture for manufacturing, which produces the vast majority of all intermediate and finished industrial goods in the economy. The right-hand bars show manufacturing non-supervisory operatives as a percentage of the total labor force. In 1956, one out of every five U.S. workers was in manufacturing. By 1995, that had been halved, to only 10%.

The left-hand bars represent manufacturing's new dollar expenditures in productive investment in plant and equipment, expressed as a percentage of GDP. To replace worn-out machinery and to technologically upgrade for the future, is a critical parameter, indicating what faith manufacturing puts in its own future and that of the economy. As such, it is a measure of manufacturing's capital intensity. In 1956, manufacturing's monetary investment in new plant and equipment was equal to 3.7% of the U.S. economy's GDP. It held at that level until 1980. Today, it is one-third lower than in 1956.

TABLE 1

Decline in production levels for goods in producers' and consumers' market baskets on a per-household basis

(index 1967=1.000)

	1967	1973	1979	1982	1990
Consumers' market basket					
Men's trousers	1.000	0.965	0.594	0.504	0.335
Men's shirts	1.000	0.644	0.486	0.343	0.165
Women's blouses	1.000	1.023	1.511	1.405	0.684
Women's dresses	1.000	0.597	0.503	0.339	0.279
Women's woollens	1.000	0.264	0.254	0.139	0.166
Refrigerators	1.000	1.247	0.935	0.703	0.932
Passenger cars	1.000	1.150	0.869	0.484	0.512
Tires	1.000	1.020	0.833	0.666	0.877
Radios	1.000	0.706	0.467	0.316	0.098
Producers' market basket					
Metal-cutting machine tools	1.000	0.643	0.530	0.289	0.212
Metal-forming machine tools	1.000	0.854	0.730	0.404	0.406
Bulldozers	1.000	1.200	0.713	0.334	0.306
Graders and levellers	1.000	0.786	0.748	0.383	0.349
Pumps	1.000	1.140	0.541	0.424	0.506
Steel	1.000	1.029	0.821	0.416	0.487
Intermediate goods for either market basket					
Gravel and crushed stone	1.000	1.023	0.914	0.624	0.575
Clay	1.000	1.022	0.759	0.459	0.544
Bricks	1.000	0.999	0.850	0.451	0.598
Cement	1.000	1.045	0.911	0.632	0.689

Collapse in output, living standards

With fewer productive workers, relative to the size of the employed labor force and the population, it is no shock that the level of output, on a per-capita and per-household basis, has plunged. **Table 1** shows the level of physical output of the consumer and producers goods market baskets relative to a 1967 standard, expressed per capita and per household. A consumer market basket is composed of goods, such as trousers, blouses, cars, food, etc., whose consumption allows the reproduction of the labor force and its families. The producers' market basket is composed of goods such as bulldozers, machine tools, and pumps, which are consumed in the productive process, producing other goods. In most cases, the unit of measure for a good was numbers of an item, e.g., numbers of pairs of pants, machine tools, or pumps.

A production level for each item for 1967 was determined, and then divided by the number of households in 1967. This yielded a production level on a per-household basis. For example, in 1967, the United States produced 86,014 metal machine-cutting machine tools, and had 59,235,000 households. Thus, there were 0.001452 metal-cutting machine tools produced per household. The 1967 production-per-household level was set equal to an index of 1, and all subsequent years' production levels were compared to it. By 1990, the United States produced 0.000308 metal-cutting machine tools per household, only 24% of what it did in 1967.

The collapse was broad-based: On a per-household basis, 1990 levels range from 7% to 90% below 1967 levels. Most items' 1990 production levels (the last year for which reliable Census Bureau information exists), are 40% or more below 1967 levels. But, it is reasonable to expect that these levels have contracted by 1-2% per year since.

This lowered level of consumer and producers' market basket goods flowing through the economy, on a per-household basis, reflects the basis for the collapse of living standards.

How many paychecks does it take?

Using data from the U.S. Bureau of Labor Statistics, *EIR* calculated preliminarily the difference in what a single worker's paycheck would buy in 1967, and today. In 1967, for the average weekly earnings of a non-agricultural worker, the median price of a new house represented 222.9 weeks of pay. By 1995, it represented 338.7 weeks. So, the average worker in 1995 had to work more than 50% longer to buy a house than a worker in 1967.

In 1967, the average price of a new car represented 31.5 weeks of average pay. By 1995, it required 46.4 weeks, that is, 14.9 more paychecks, 47.3% more than 1973.

Similarly, according to the American Hospital Association, in 1965, the average hospital bill amounted to 2.94 weeks of the average weekly wage. In 1990, the average hospital bill represented 11.2 weeks of average pay, a nearly fourfold decrease in the standard of living, as measured by the ability to afford medical care. (There is also the issue of medical insurance: Millions of Americans, of course, have no medical insurance, and those who do, have seen their premiums rise through the stratosphere.)

Demographic holocaust

The fall in family living standards has made Americans less able to support more than 1 to 2 children. This has been exacerbated by the fact that since 1970, women have entered the labor force en masse, to attempt to hold up the family income, resulting in a reduction of the time to bear and rear children. In addition, a paradigm of cultural pessimism has also discouraged childbearing.

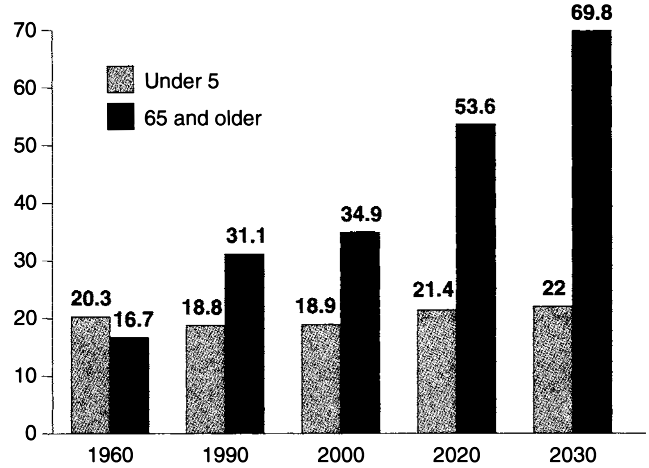
During the 1990s, the birth rate in America averaged 13.4 live births per 1,000, half the rate of 24.6 live births during 1945-59, when America had a relatively normal birth rate. *Further, the 1990s rate is 30% below the rate of 19.2 births per 1,000 of the 1930s during the Depression,* when people did not have children, because they did not know where the next morsel of food was coming from. This is stunning evidence that the United States today is in a depression.

During the 1950s in America, the "generalized birth rate," which measures the number of children that a woman in the childbearing age range of 19-44 will have during her lifetime, averaged 3.56 children per woman in that age range. In 1973,

FIGURE 3

Population under 5 remains stagnant, while elderly population grows

(millions)

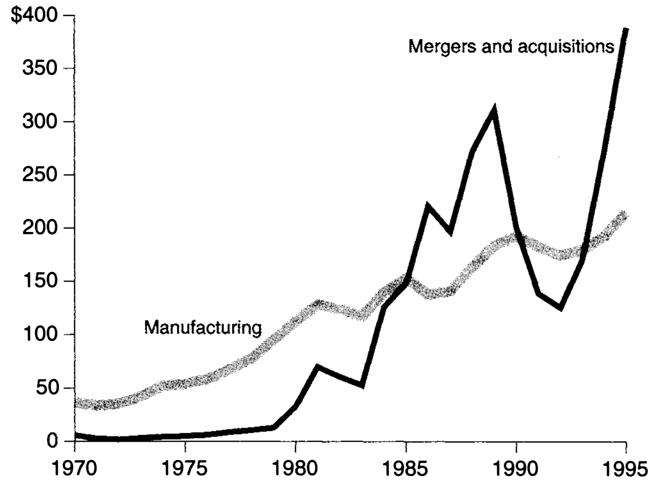


Source: Census Bureau of the Commerce Department, *Historical Statistics of the United States, Colonial Times to 1970;* Census Bureau, *Statistical Abstract,* 1993 and other years; Bureau of the Census, *Projections of the Population of the United States, by Age, Sex and Race: 1988 to 2080 (series P-25, No. 1018) and 1992 to 2050 (series P-25, No. 1092).*

FIGURE 4

Mergers and acquisitions versus new manufacturing plant and equipment

(billions $)



Sources: *M&A Almanac,* published by IDD Enterprises; U.S. Department of Commerce, Bureau of the Census.

the rate went below 2.1 children (the minimal "replacement level" needed for a society to sustain its numbers), and has not risen above that level for 23 years. *Currently, America cannot even biologically reproduce itself.*

One of the most far-reaching consequences of this plunging birth rate can be seen in **Figure 3.** In 1960, the population under age 5 was larger than that 65 and older. This represents a healthy state of affairs. By 1990, the situation had reversed itself. According to the Census Bureau's projections, if the current demographic trend keeps up, by the year 2030, the population 65 and older will outnumber those 5 and younger by more than 3 to 1. (It is beneficial that Americans live longer. But in a healthy economy, while the number of people over 65 should grow absolutely, that age group should remain the same or even fall as a percentage of the total population.)

America is not suffering a problem of "graying"; rather, the problem lies with the lack of young people. This is precisely the underlying cause for the crises of the Social Security System, which, under current trends, would run out of funds by the third decade of the next century, and Medicare, which would run out of funds much sooner. Instead of the application of Nazi austerity against the elderly, proposed by Newt Gingrich et al., America should jettison the post-industrial society policy that created this demographic nightmare.

Speculation

As physical output, living standards, and family formation plummet, the United States finds itself on the brink of extinction. Concomitant with the post-industrial society policy has been a financial bubble which, like a giant succubus, is generating tens of billions of dollars of fictitious profits, sucking the life-blood from the economy. This is precisely what the British forces at the G-7 summit, which are pushing America as an economic model for the world, find so attractive.

As late as 1970, in America's combined export and import of physical goods (see Figure 3 in accompanying article, p. 25), for each $1 traded on U.S. foreign exchange markets, America transacted 70¢ worth of mercantile trade. The foreign exchange was closely related to financing mercantile trade. Over the past 15 years, foreign exchange speculation has burgeoned. Today, for each $1 traded on U.S. foreign exchange markets, America engages in only 2¢ worth of mercantile trade. The financial and physical sides of the economy have totally separated.

Figure 4 shows the financing for mergers and acquisitions (M&A), i.e., corporate takeovers, versus new expenditures for plant and equipment. By 1995, Wall Street M&A financing was nearly double new plant and equipment expenditures, the latter of which represents America's capital formation planning for the future. Corporate executives now get $15 million per year in compensation for asset-stripping and presiding over shrinking corporations.

In citing the U.S. economy as a model of economic growth, the authors of the G-7 summit's economic communiqué are promoting a speculative looting scheme, in which the physical basis for supporting continued human existence is being cannibalized.