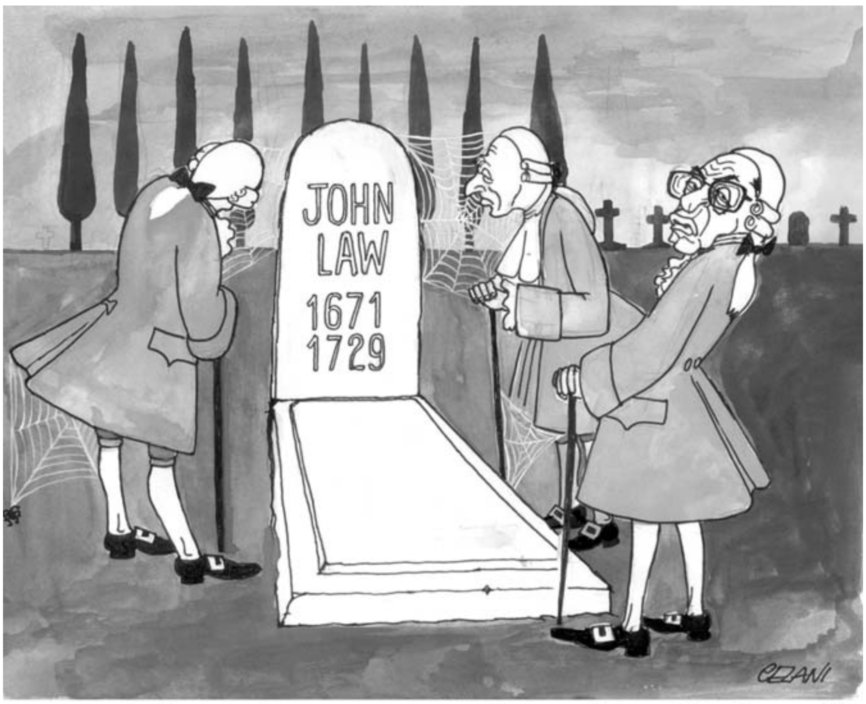
EIR Economics

U.S. Economic Slide Gathered Shock Force Since August

by Richard Freeman

On Dec. 7, the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor released unemployment statistics, showing that U.S. unemployment, far from moderating according to the desperate "recovery" visions of financial press and analysts, had shot upward in November. Further, the BLS showed that the official number of unemployed had surged in the United States, during the period between August and November of this year, by a staggering 1.77 million. The unemployment explosion is one of several pieces of evidence that offer striking confirmation that something fundamental happened during that four-month period: The United States economy underwent a sharp *phase-shift* downward.



Some believe that, sooner or later, he will rebound.

The additional evidence of this August-November phase-shift, includes the collapse of key categories of U.S. industrial production by double-digit percentages. During this period, there were also dramatic developments in the auto industry, and in the steel industry, which portend severe consequences.

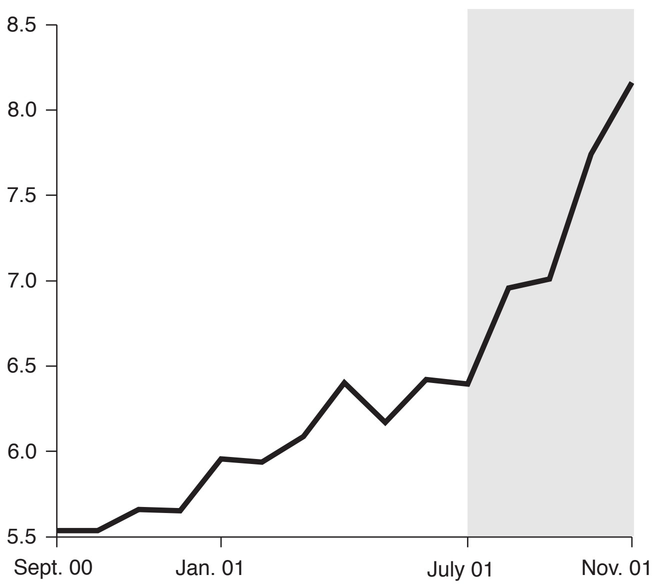
The term "phase-shift" has a very precise meaning. In the case of physics, a phase-shift, such as the freezing of water into ice, means that a different set of laws governs and measures the behavior of water in its liquid state than governs and measures the behavior of water in the frozen, solid state, even though, superficially, water in both states has the same chemical composition.

In the 1960s, the London-Wall Street financier oligarchy imposed a post-industrial society policy upon the United States. This built up a cancerous speculative bubble which sucked the life-blood out of the underlying physical economy and the population. It lowered the economy's functioning so far below producing the required energy of the

FIGURE 1

Number of Official U.S. Unemployed Explodes

(Millions)



Source: Department of Labor, Bureau of Labor Statistics; *EIR*.

economic system, that the system is now depleted and dysfunctional. After more than three decades of underlying real economic shrinkage, the post-August, 2001 phase-shift has suddenly hastened this devolutionary process.

All attempts to restore the economy, by traditional fiscal measures, which would have operated under previous orderings of the economy, such as lowering interest rates, do not work. On Dec. 11, Federal Reserve Board chairman Alan Greenspan lowered the federal funds rate to 1.75%; this eleventh cut of the year can have no positive effect on the economy, despite its continuing buildup of hyperinflationary pressures through asset prices.

Reviewing the latest events in the dramatic industrial collapse under way, particularly the sharp rise in unemployment, the crisis in steel, and the sudden auto slowdown, Presidential candidate Lyndon LaRouche declared on Dec. 9, "We need a National Recovery Planning Act." LaRouche would implement bankruptcy reorganization of the financial system, and emission of directed credit in the manner of President Franklin Roosevelt's war mobilization and Alexander Hamilton's national banking, but linked now to Eurasian Land-Bridge development as the focus of American trade.

The news media have been attempting to deny that a phase-shift has occurred, characterizing it daily and hourly as a minor recession, with a recovery sure to begin at any time. But the huge scope of this August-November phase-shift, can be readily seen by examining the explosion in unemployment, then the breakdown in industrial production, and the transformations of the automotive and steel industries. Each process reinforces the totality of the devastating effect.

Unemployment Silences The 'Experts'

On Dec. 7, the BLS announced that the official number of U.S. unemployed rose from 7.741 million in October to 8.160 million in November, an immense increase of 419,000. This is the highest unemployment level since August 1995. The official unemployment rate rose to 5.7% in November, up from 5.4% in October.

The rise in unemployment cut through all the jabbering of so-called experts: One day before the BLS released its figures, the "consensus" of experts had predicted that the number of unemployed would rise by "only" 189,000 in November. Afterwards, David Wyss, chief economist of Standard & Poor's, said, "Rumors of [an economic] recovery seem to be premature."

Two noteworthy features of the unemployment figures stand out. First, as **Figure 1** shows, between the start of August 2001 and the end of November 2001, the official number of unemployed rose from 6.395 million to 8.160 million, an increase in unemployment of 1.765 million in only four months.[1] This is equivalent to throwing onto unemployment the entire population of Houston, Texas, America's fourth largest city. Second, just between September and November, the official number of unemployed exploded by 1.151 million. This is the largest two-month increase in the number of unemployed in at least two decades.

The unemployment has struck hardest one of the most crucial sectors of the economy: manufacturing. *November marks the 15th consecutive month in which the manufacturing sector has lost jobs.*

Figure 2 shows that since July 2000, 1.393 million manufacturing payroll jobs have been eliminated from the U.S. economy. It gets worse: Of those who work in the manufacturing sector, there are two types of workers: those working in manufacturing who do not alter nature, and who are employed in sales, as clerks, as engineers, etc.; and those workers who do alter nature, and who are termed manufacturing production workers. Since July of 2000, the economy has eliminated 1.187 million *manufacturing production* workers' jobs—which represents 85% of total manufacturing jobs—meaning it has axed those workers who change nature for man's advancement.

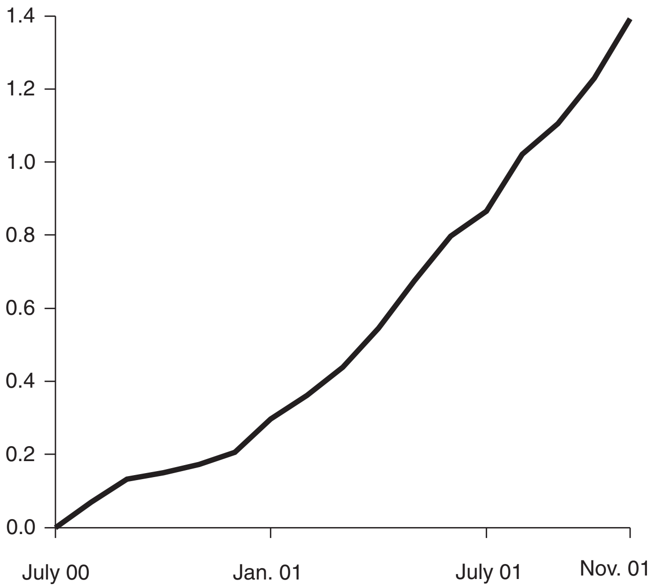
To put this into perspective, America's production manufacturing employment has fallen to the level it reached in 1950! Think of the expansion of the labor force in the United States since that time—it has more than doubled—and you get an idea of the sheer physical deficit and disaster this re-

1. The shading of Figure 1 starts from the marking for July, because that represents the number of unemployed on the *last day of July,* which is also the number of unemployed on the morning of the *first day of August*.

FIGURE 2

Cumulative Elimination Of U.S. Manufacturing Workers' Jobs Since July 2001

(Millions)



Source: Department of Labor, Bureau of Labor.

TABLE 1

Fall In U.S. Industrial Production

(Third Quarter 2001, On Annualized Basis)

Communications equipment	–24.8%
Semiconductors and related electronics equipment	–24.2
Industrial machinery and equipment	–15.5
Electrical machinery	–17.7
Furniture and fixtures	–11.1
Textile mill products	–14.2
Apparel	–16.6

Source: Federal Reserve Board of Governors.

presents.

But even as ruinous as the official BLS unemployment rate is, the real unemployment rate, measured by *EIR,* proves that the situation is far worse, because the BLS does not count all who are unemployed. *EIR* calculates its rate by counting those workers in the category "Official Unemployment," plus those workers in two categories that the BLS does not count: those in the category "Want a Job Now, But Not In the Labor Force," and those in the category "Part-time for Economic Reasons." On that basis, total real unemployment in November was 16.721 million workers, and the unemployment rate was 11.4%—double the official rate.

Industrial Production Plunges

While the explosion of unemployment is the main red dye, three other areas of economic activity give critical signs of the downward August-November phase-shift. The first is the plunge in industrial production. **Table 1** shows the production output for key sectors of the economy, as measured by the Federal Reserve Board's industrial production indices. It compares the third-quarter performance to second-quarter performance for the year 2001.[2] The table shows a high rate of collapse: During the third quarter, production of semiconductors plunged by 24.8%; production of industrial machinery by 15.9%; and that of textile mill products by 16.6%.

Most of the fall during the third quarter occurred during the months of August and September—the first two months of the August-November economic downward phase-shift under consideration. Thus, the unemployment explosion both reflected, and was accompanied by, the production collapse.

Though the press claims that it was the effects of the covert strategic attacks of Sept. 11 which reduced industrial output, it should be stressed that aside from airlines, this had no significant effect on industrial production (see *EIR,* Nov. 2, 2001).

Ford Motor Company Planned Closings

The second process to be considered, is that of the policy of America's big three auto companies—Ford, General Motors, and Daimler-Chrysler.

Beginning within days after Sept. 11, the "big three" auto companies announced that they would extend zero-percent financing for auto loans on most makes and models. They said the financing deal was related to the Sept. 11 events, but the truth is that motor vehicle sales and production had been down the entire year 2001 relative to the year 2000; the auto companies were interested in getting sales back up. In addition to zero financing, some auto companies offered zero down payment.

The zero-percent financing had two purposes. First, to increase current sales at the expense of future sales. During October, U.S. consumer purchases for all goods increased by a scant $18 billion, but of that amount, $16 billion was accounted for by increased auto purchases, so the auto industry's zero-percent financing scheme was pivotal to the hoax of consumer purchasing going on in the U.S. economy. That this was a scheme born of desperation, can be seen in the fact that the cost of the auto incentives is as much as 16.5% of auto sales revenues, and therefore, on the whole, the auto companies are losing money on the incentives program. The companies simply brought in car buyers during October and

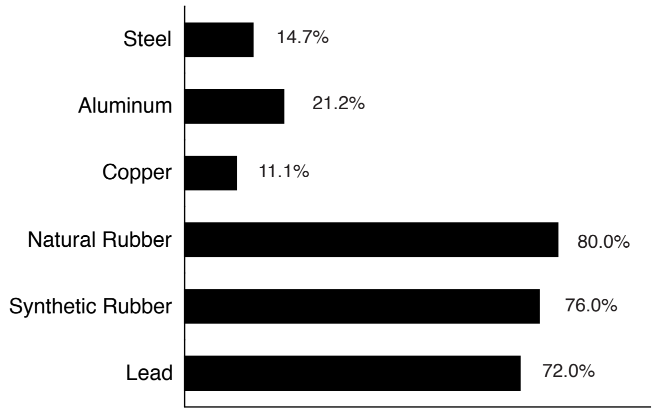
2. The Federal Reserve's industrial production indices involve certain methodological frauds; remove the frauds, and the level of fall would be even greater than what is reported in the table.

TABLE 2
Material In A Typical Family Vehicle, 2001
(Pounds)

Regular steel sheet, tube, bar, and rod	1,349.0
High- and medium-strength steel	351.5
Stainless steel	54.5
Other steel	25.5
Iron	345.0
Plastic and plastic composites	253.0
Aluminum	256.5
Copper and brass	46.0
Powder metal parts	37.5
Zinc die castings	11.0
Magnesium castings	8.5
Fluids and lubricants	196.0
Rubber	143.5
Glass	98.5
Other materials	131.0
Total	**3,309.0**

Source: American Metal Market and Industry Reports; Ward's Automotive.

FIGURE 3
Automotive Percentage Of U.S. Material Consumption



Source: American Iron and Steel Institute; Rubber Manufacturer's Association; International Institute for Synthetic Rubber; Aluminum Association of America; U.S. Geological Survey; *EIR*.

November, who might have waited until 2002 to make a purchase.

Lyndon LaRouche, in his Dec. 9 analysis and call for the National Recovery Planning Act, identified a second purpose for the zero-percent financing scheme. By keeping auto sales temporarily going, the auto makers could keep auto production temporarily going, and therefore consume resources. To understand this point, consider **Table 2,** which shows, by weight, the materials that go into a typical family vehicle. A wide variety of materials go into a car. The same point is made, but from the industrial sectors' perspective, in **Figure 3.** The graph shows that annually, the U.S. automotive industry consumes 14.7% of steel production, 21.2% of aluminum production, 76% of synthetic rubber production, and so on. And—though this is not displayed on the graph—the auto industry consumes a significant percentage of zinc, glass and platinum, as well as machine tool production. The motor vehicle industry is America's largest manufacturing industry, and its physical resource and goods consumption is a critical margin that maintains many industrial sectors.

Through the zero-percent financing scheme, the motor vehicle industry was deployed to hold up a portion of the U.S. economy, and to moderate the steep rate of collapse of the August-November phase-shift downward. This tells us that without the financing scheme, the phase-shift would have been more pulverizing. The motor vehicle industry will be the exception that proves the rule. On Dec. 3, Moody's credit rating agency downgraded Ford's credit rating to "BBB+," the lowest level since 1984. On Dec. 5, Ford's chief financial officer Martin Inglis told a conference call of analysts that "We have a very serious situation," and reported that Ford expects to have a $2.4 billion loss for the year. He announced that Ford would implement an unspecified restructuring plan.

Analyst Saul Rubin, of UBS Warburg, said that Ford would have to mothball five or six of its 21 North American assembly plants, and lay off 30,000 workers. None of the expected Ford layoffs are among the sharply increased unemployment of 2001; they will hit in 2002. In parallel, a shutdown of a portion of Ford production in 2002 will, through the multiplier effect, spill over into all the industries whose goods Ford consumes. Daimler-Chrysler is also discussing plant shutdowns and worker layoffs in 2002.

Thus, the auto industry's zero-percent financing, which was deployed, in part, to blunt the biggest tendency of the August-November downward phase-shift, will now make the next phase of that phase-shift even more violent.

Steel's Coordinated Shrinkage

The third process in the phase-shift downward is in the steel industry.

Figure 4 shows that in roughly the specified interval of August through November, weekly raw steel production plummetted from 1.89 million net tons to 1.50 million net tons, and the weekly steel capacity utilization rate nosedived from 78.7% to 65.5%.

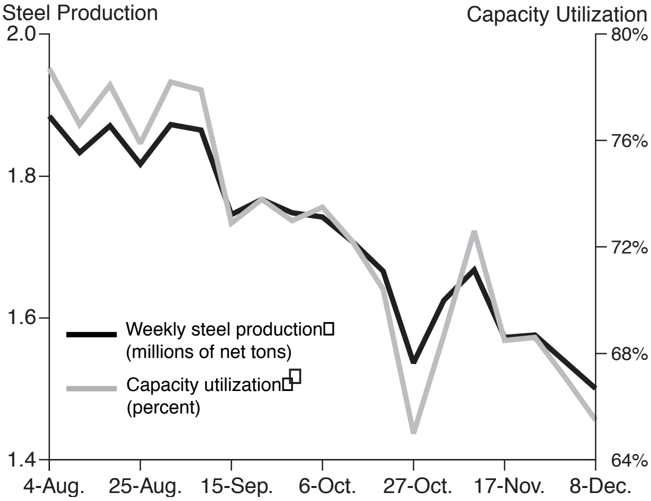
For the steel industry, the August-November interval represents the deepest collapse of the year: **Figure 5** shows that year-to-date steel production is 11.9% below that of the year 2000.

However, the Wall Street-dominated American steel in-

FIGURE 4

U.S. Steel Production And Capacity Utilization Plummet

(August-November 2001)

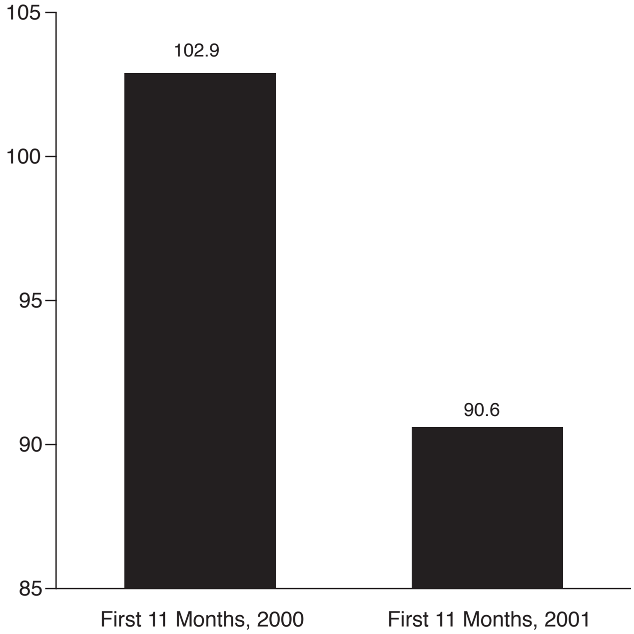


Source: American Iron and Steel Institute.

FIGURE 5

U.S. Raw Steel Production Falls By 11.9%, Year-To-Year

(Millions Of Net Tons)



Source: American Iron and Steel Institute.

dustry has come forward with a proposed remedy that is worse than the illness. The U.S. Steel division of USX Corporation, America's biggest steelmaker, issued a three-point program on Dec. 4, demanding a coordinated "consolidation" of the domestic steel industry, which could halve America's steel production within a few years. The three elements of the plan are:

1. The use by the United States of Section 201 of the 1974 Trade Act to impose duties and tariffs on steel producers of other countries;

2. "A government-sponsored program" that would assume and pay the steel industry's "pensions and . . . healthcare costs" with taxpayers' dollars;

3. "A new labor agreement" that would force steel worker layoffs and wage reductions.

Further, USX calls for "near-term elimination of inefficient, excess [sic] steel production capacity throughout the world." Not incidentally, this would shut down the steel production capacity needed to build the Eurasian Land-Bridges, and their associated rail-based development corridors. The large-scale rail, road, communications, ports, energy, and water-management projects associated with the Land-Bridges would put an end to the global depression.

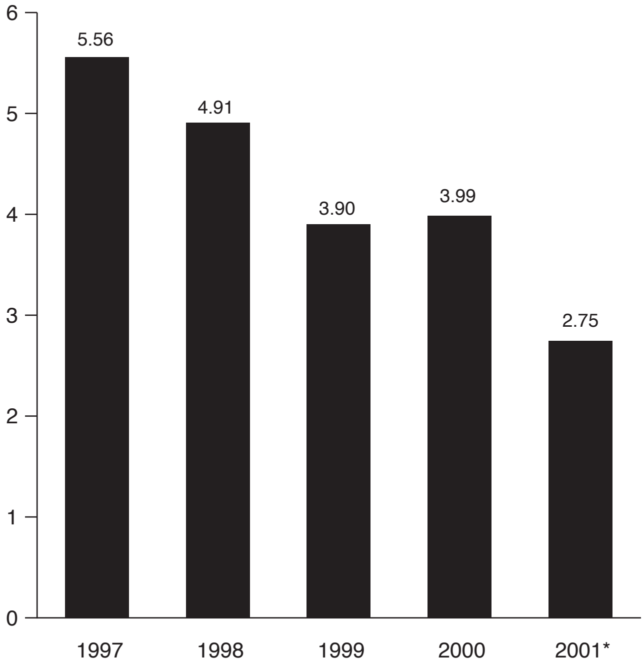
The last element which brings to light the August-November phase-shift downward, is seen in the machine tool industry.

On Dec. 10, the Association for Manufacturing Technology announced that for October 2001, the level of machine tool consumption by U.S. industry fell by 36.3% compared to October 2000. As is true with most of the industries discussed here, the current downfall is embedded in a long-term process of decline. **Figure 6** shows that the year 2001's machine-tool consumption will be only 49.5% of what it was in 1997. Machine tools incorporate and transmit advanced scientific discoveries to the economy as a whole. Machine-tool consumption represents what U.S. industry consumes as part of the production process; such a sharp fall in consumption emphatically shows the full depth of the U.S. industrial sector's collapse.

A Real Remedy

It is long since past the time of band-aids. Lyndon LaRouche has proposed putting the bankrupt global financial system through bankruptcy reorganization, and issuing directed Hamiltonian credit. From the standpoint of constructing the Eurasian Land-Bridge, and its corridors of economic development, this would energize the explosive growth of the world economy. On Dec. 9, LaRouche proposed, "We need to build the international infrastructure projects [the development of the Eurasian Land-Bridge, and so forth], and that is what will keep these steel companies alive. You see, if the U.S. government extends a bail-out to the steel industry, the steel industry will just suck up the money—Wall Street will

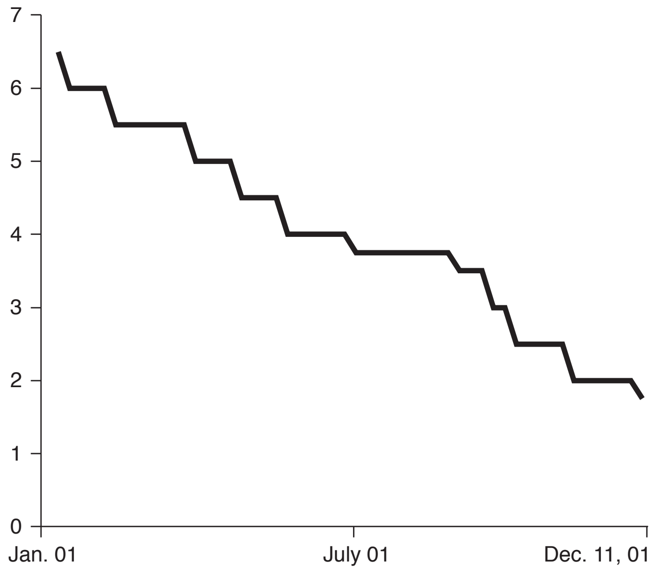
FIGURE 6
U.S. Machine-Tool Consumption
(Billions $)



*Projected, based on first 10 months of 2001.

Source: Association for Manufacturing Technology.

FIGURE 7
U.S. Federal Funds Rate
(Percent)



Source: Federal Reserve Board of Governors.

just suck up the money. These companies need to be put through bankruptcy reorganization. We need to keep the steel industry capacity going, but through these projects."

Within this international orientation, Lyndon LaRouche addressed the phase-shift downward in the U.S. economy. "We need a National Recovery Planning Act. Our farms, manufacturing facilities, and essential security we can keep in business. We need international loans and development. We won't bail out the steel industry or other industries. We can issue credit for development. Down the line, this brings benefits, and we get long-term development."

Greenspan Lunacy

On Dec 10, the Federal Reserve Board's Federal Open Market Committee (FOMC), and chairman Alan Greenspan, lowered the federal funds rate by one-quarter of a percent, to 1.75%, the eleventh cut this year, as shown in **Figure 7.** Now the federal funds rate is at its lowest level in 40 years. The FOMC also lowered the discount rate by one-quarter of a percent, to 1.5%.

The FOMC justified its action with an explanation that "Economic activity remains soft, with underlying inflation likely to edge lower from relatively modest levels." Such is its comment about an economy that is collapsing, and in which physical goods price deflation is spreading.

Greenspan's action will intensify a Weimar Republic-style hyperinflationary explosion, but cannot bring economic recovery. Unless Greenspan's policy is replaced, the August-November downward phase-shift will amplify its own devastating effect.

$50 Billion Is Missing From States' Budgets

by Carl Osgood

On Dec. 10 in Washington, the National Governors Association and the National Association of State Budget Officers released their annual fiscal survey of the states. The states' budget picture is grim, with the amounts of disappearing revenue nation-wide exceeding even what *EIR* has previously reported in its tracking of this side of the ongoing economic collapse. The budget shortfalls of the 50 states are likely to total $50 billion this fiscal year, indicating the shock-impact of depression-collapse on tax revenues. All but a small handful of states now have acknowledged budget shortfalls, as