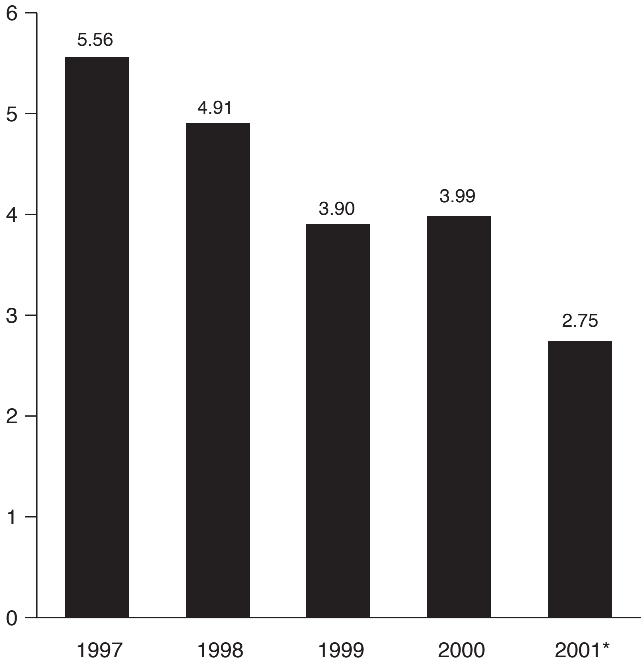
FIGURE 6

U.S. Machine-Tool Consumption

(Billions $)



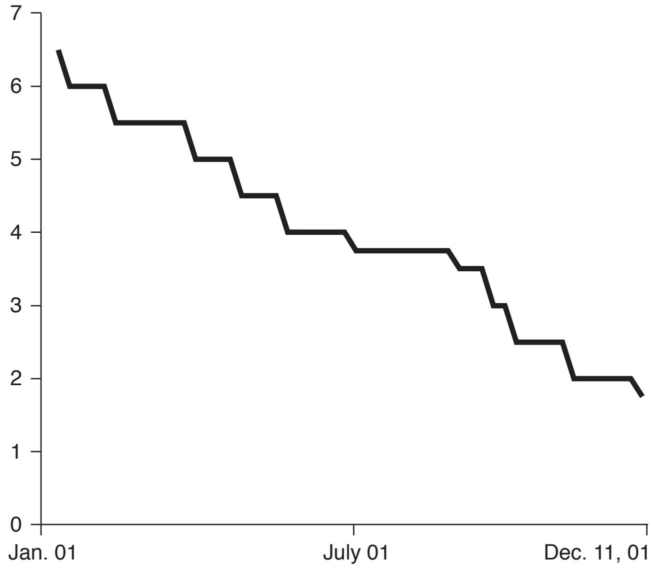
*Projected, based on first 10 months of 2001.

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 layoffs, disappearing profits and vanished capital gains shrinking the states' income.

In the words of NGA executive director Raymond Scheppach, "states' current fiscal condition is already worse than the recession of the early 1990s. As unemployment and state revenues lag changes in the overall economy, states' fiscal situation will likely deteriorate further."

Scheppach said that a combination of "dramatic" fall in revenues, soaring health care costs, and the costs imposed by the terror attacks of Sept. 11 have resulted in state budget shortfalls of $40 billion so far for fiscal year 2002 (which in most states ends on June 30, 2002), and could reach $50 billion by the end of the fiscal year. *This clearly conservative estimate is equal to a loss of 10% of the total of all state spending*. It compares with a total peak shortfall during the early 1990s recession of $19.2 billion. So far, 16 states have had to cut their fiscal 2002 budgets in the midst of spending them, pointing to worse, for all the states, in the fiscal 2003 budgets which are being planned.

The NGA offered no remedy, simply calling on the Federal government to take a larger share of Medicaid spending. This, they argue, would make $5.5 billion immediately available for stimulating the economy and help the states cover 3 to 4 million people who are expected to become Medicaid eligible this year.

Steel Industry Must Build Out Of Collapse

by Patricia Salisbury

Democratic Party Presidential pre-candidate Lyndon LaRouche stated on Dec. 9 that we need a National Recovery Planning Act, centered around the infrastructure requirements of the United States and world economies. This policy, LaRouche stressed, is in sharp contrast to the current clamor for bailouts by representatives of various disintegrating sectors of the U.S. economy.

No sector of the economy needs to heed the candidate's advice more urgently than the American steel industry and its trade union leadership.

Between Dec. 9 and Dec. 12, five percent of the remaining steel-making capacity in the United States was shut down. Short of the adoption of LaRouche policy recommendation and leadership, it is unlikely that it will ever be restarted. The wipeout occurred when LTV Steel Company placed its mills employing 7,500 workers in Cleveland, Ohio; East Chicago, Indiana; and Hennepin, Illinois on "hot idle" status, pending a final determination by a Federal bankrupcty court on Dec 19. This means that while the plant is being maintained in a way that production could be restarted, no steel is actually being produced, and the workforce is being laid off in waves, until only a small maintenance crew remains.

LTV had filed for Chapter 11 bankrupty in December 2000, and requires a $250 million Federal loan guarantee to remain in existence. Various industry analysts are freely expressing the hope that LTV's plant will be sold piecemeal, and its blast furnaces dynamited.

The shutdown of LTV is occurring despite a seemingly fierce mobilization of the United Steel Workers of America (USWA), community leaders—including the Bishop of the Roman Catholic Church in Cleveland, who filed an *amicus* ("friend of the court") brief in bankruptcy court—and the office of U.S. Rep. Dennis Kucinich (D-Ohio), who got a restraining order against an irreversible "cold shutdown." The closure is proceeding despite the resignation under fire of LTV president William Bricker, who was presiding over the dismantling of the company.

USWA members held marches, rallies, and candlelight vigils at their plant gates, and travelled on Dec. 12 to Washington to establish a "tent city," which they vowed to maintain as long as Congress is in session. They plan to lobby