Breakdown in Finance, Manufacturing Worsening in the Industrial Nations

by Richard Freeman

The month of May has seen a drastic acceleration of the inevitable financial collapse now engulfing the globe, especially in the "formerly industrialized" nations, whose economies are fracturing in critical sectors.

In Germany, one of the more important financial institutions is melting down, and producer-price inflation reached a 19-year high in April; in Japan, the trade surplus, one of the few features of the Japanese economy still holding up, took a nosedive in April.

In the United States, the eruption of very high vacancy rates in commercial property in the Northern Virginia-Washington, D.C. corridor—one of the United States' five largest "high-tech" concentrations—signals the meltdown of the New Economy. Simultaneously, America's output of machine tools, auto, steel, and semiconductor equipment has plunged.

Yet, in Washington, D.C., U.S. Treasury Paul O'Neill continuous to deny denies obvious evidence of breakdown, and pursuing policies which are not only incompetent, but also dangerous. On May 21, O'Neill announced that the Bush Administration had allegedly dodged a recession, and that the economic "correction process is well under way." O'Neill reserved special praise for the recent actions of Federal Reserve Board Chairman Alan Greenspan, crowing that "I think monetary policy is in wonderfully good hands."

The reality is the opposite. On May 15, Greenspan and the Federal Reserve Board of Governors cut the federal funds rate—the overnight interest rate that banks charge each other, which serves as a benchmark for all other interest rates—by one-half percent, to 4%. This is the fifth half-point cut in the federal funds rate that the panicked Greenspan and the Fed have undertaken since Jan. 3. Greenspan's action is a desperate attempt to intensify the pumping of huge volumes of liquidity into the U.S. and world financial system. And it may even succeed in temporarily buoying up the U.S. stock market and other parts of the U.S. financial bubble, drawing the "mickies" into the stock market. That would create the environment for the oligarchical insiders to cash safely out of the market, and go invest in hard-commodity assets, which they anticipate will survive, when the inevitable, oncoming crash wipes out paper values.

Ultimately, Greenspan's wild money-printing binge is stoking the kind of hyperinflation that deluged Weimar Germany in 1923, and which will guarantee an even worse blow-out of the world financial system. Signs of such hyperinflation are already evident in Germany.

'High-Tech' Breakdown

On May 23, the *Washington Post* reported that in several sections of the Northern Virginia-Washington, D.C. "high tech" corridor, the rate of vacancy of commercial properties is surging, because the New Economy firms that used to, or planned to, occupy these properties are going bankrupt. In the town of Herndon, commercial vacancy rates have doubled from last September to 18.3%; in the Route 28/Dulles Airport area, the vacancy rate is now 17.1%.

The *Washington Post* is probably low-balling the figures. Last October, *EIR* Economics staffer John Hoefle told *EIR News for Loudoun County,* that he expects "real trouble" in the area's commercial real estate. "Most of what is being built is in anticipation of the continued expansion of the dot.coms and IT sector. If that doesn't materialize, many projects go bust. If tenants aren't there, go out of business, or are forced to move out and scale back, who pays for the mortgages? And, who covers for the financial institutions that can't collect on those mortgages? . . . The irony is that you can't drop rents, because if you do, you can't pay for the paper; so you start seeing vacancy rates climb."

At the same time, the U.S. physical economy is collapsing in critical manufacturing sectors:

Machine Tools: Machine tools incorporate and transmit the most advanced scientific conceptions to the entire physical economy, and are indispensable for its survival and advancement. During the first three months of 2001, U.S. industry consumed $738.5 billion worth of machine tools, versus $1,064.5 billion during the same period of 2000, which represents a decline of 30.6%. U.S. machine-tool production, though figures are not yet available, parallels this trend.

Steel: For the year to date through May 5, U.S. steel manufacturing plants produced 35.1 million net tons of raw steel, whereas during the same period last year, they produced 39.8 million net tons, a fall of 11.9%. For the respective comparable periods of this year and last, the steel industry's capacity utilization rate has fallen to 79.8%, from 89.0%.

Currently, more than a dozen U.S. steel companies are in bankruptcy. One of the largest steel companies in bankruptcy protection, LTV Corp., announced that on June 11, it will shut down its Cleveland (Ohio) Works plant forever, which would

TABLE 1
U.S. Auto and Truck Production

	Year-to-Date Through May 12, 2001	Year-to-Date Through May 13, 2000	Percent Change 2000 to 2001
Cars	1,914,711	2,175,068	–11.0%
Trucks	2,466,763	2,966,055	–16.8
Cars and Trucks	4,381,474	5,141,123	–14.8

permanently eliminate 2 million tons of hot-rolled steel capacity from America's economy. The United Steelworkers of America union is talking with LTV to try to keep the plant open, but there is little chance that they will succeed in doing so.

Auto: For the year to date through May 12, U.S. producers of motor vehicles produced 4.38 million cars and trucks, compared to 5.14 million in the same period last year, a fall of 14.8% (**Table 1**).

Semiconductors: In April, new orders for semiconductor equipment produced in North America declined to $711.8 million, a plunge of 41% from March's level, and of 74% from April of last year, according to May 23 report of the Semiconductor Equipment and Materials International (SEMI). The United States produces most of North America's semiconductor equipment. The book-to-bill ratio in the semiconductor equipment sector fell to 0.42 (that is, for each $100 in shipments, there is only $42 in new orders). SEMI President Stanley Myers asserted, "The severity and depth of this industry correction is unprecedented."

In parallel, in April, new single-family homes sold at an annualized rate of 894,000, a decline of 9.5% from March's annualized rate of 988,000. This represents the biggest one-month drop since April 1997. As the levels of layoffs and unemployment increase, and the "wealth effect" from capital gains from the stock market bubble dissipates, Americans are increasingly pulling back from buying homes.

State Budget Crises Grow

The blowout of the New Economy and the physical economy is leading to the collapse of U.S. state budgets. Last year, only seven or eight state budgets were in crisis; already this year, 20 states are having budget crises, and this number could grow to 40—or even all 50—by year's end. On May 14, California Gov. Gray Davis announced that his state's budget for this fiscal year and next year combined, will show a staggering revenue shortfall of $4.6 billion. But if the nearly $7 billion which the state has forked over so far to pay for energy, is not covered by a new bond issue, the state will have an additional $7 billion in revenue shortfalls. This potential $12 billion hole could only be "balanced" by the most savage budget cuts.

The pattern is the same in all other major industrial nations throughout the world.

Germany: According to the May 23 German financial daily *Handelsblatt,* the Berliner Bankgesellschaft, which is in trouble because of both past speculation and the current economic slide, will require a rescue package of at least 4 billion deutschemarks ($1.75 billion), to avert immediate collapse. At the same time, the Federal Statistical Office announced on May 23 that German producer prices in April were up 5.0% compared to one year ago, the highest annual price jump recorded in any month in 19 years. This is a sure sign of the worldwide hyperinflation.

Japan: On May 21, Japan's Finance Ministry announced that Japan's trade surplus, at 666 billion yen ($5.4 billion) in April of this year, had fallen by 41.6% from April of last year. Japan's economy depends on its trade surplus, and this is one of the few features of the Japanese economy which has operated well up to this point.

Unless that economic-financial crisis is addressed at its root cause, as LaRouche does, it is bound to accelerate over the coming weeks.

America's Poor Forced Into 'Energy Bondage'

by Mary Jane Freeman

To keep the utilities on, millions of American families are now entering into virtual "energy bondage," by signing exorbitant payment agreements with energy or utility companies. Between 7 and 10 million low-income families are at risk of being disconnected, because of huge bills which accumulated this Winter, as the energy bandit companies, such as Reliant and Enron, charged more, and raked in record profits.

When the poorest 20-40% of American households are considered, it becomes most clear that these super-profits are being run up at the expense of human life. This enslavement will only cease when a national, regulated energy policy is in place for all Americans, thereby putting an end to the energy pirates' gaming-the-market swindle.

"All households faced unexpected financial pressure from rapidly rising energy costs last Winter, but low-income energy consumers faced true hardship," reports a May 3 survey, "The Winter Behind, The Summer Ahead: A Harsh Spring Faces Low-Income Energy Consumers," issued by the non-profit Economic Opportunity Studies, Inc. (EOS), of Washington, D.C. It reports that, on average, *27 million out of America's 29 million low-income households will need to spend from one-fifth to one-quarter of their annual income to pay energy bills received from October 2000 to September 2001.* All other so-called "non-poor" households are paying, on average, $500 more this year than in 1997, but that is only